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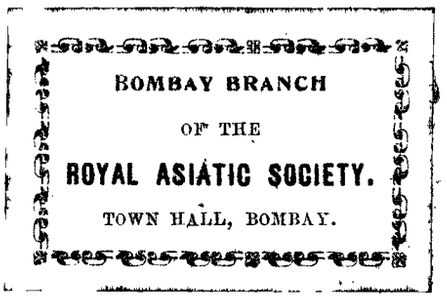

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REPORT

REGARDING THE POSSIBILITY OF INTRODUCING

LAND AND AGRICULTURAL BANKS

INTO THE

MADRAS PRESIDENCY.

108318

VOLUME I.

MADRAS:
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1915.

PROCEEDINGS OF THE MADRAS GOVERNMENT.

PUBLIC DEPARTMENT.

ORDER—15th March 1892, No. 173, Public.

His Excellency the Governor in Council is pleased, under the provisions of section 98 (*a*) of the Civil Service Regulations, to place Mr. Frederick Augustus Nicholson on special duty for the purpose of enquiring into the possibility of introducing into this Presidency a system of Agricultural or other Land banks.

(True Extract.)

(Signed) J. F. PRICE,
Chief Secretary.

PREFACE.

THE following report has been written to the order of the Madras Government as conveyed in G.O. dated 15th March 1892, His Excellency Lord Wenlock being desirous of assisting the organization of rural credit through Land and Agricultural banks in this Presidency, in view to the replacement of the individual money-lender and to the development of the economic condition of the country.

The delay in submitting the report is due to many causes, principally to the immensity and complexity of the subject, to the difficulty of ascertaining and then of obtaining sources of information, to the discontinuity thereby imposed when a half finished study had to be broken off till the receipt of further information, to the extreme difficulty arising from the incessant demands of a Collector's work, notwithstanding two periods of special duty. Until 1894 there was, practically, no English work even on the one subject of Popular banks, while the sources of detailed information are, even now, only in foreign languages; and it is believed that there is no existing work in English on the Land and Savings banks systems, or upon the credit systems and indebtedness of the landed proprietor, of the European continent. For the Madras Presidency statistics and information did not exist, and it is only through much enquiry and by the courtesy of numerous correspondents that information has been obtained. A list of the questions originally issued and of the correspondents to whom they were sent, will be found in the appendix.

Some explanation of the contents and method of this report is needed.

The report, with its appendices, is, of course, a compilation from numerous works and reports of Europe and America. A Madras civilian could hardly obtain a working knowledge of the variety of banks herein described, especially under the difficulties of distance, diversity of language, and the like. Hence it professes to be no more than a compilation so far as European matters are concerned. For this country, facts and opinions have been supplied by numerous correspondents and informants especially in the matter of the Nidhis, by the courtesy of the Courts and by the statistics of the Registration department which have been consulted through the aid of the present Inspector-General the Hon'ble Mr. S. Srinivasa Raghava Iyengar, C.I.E. But in so complicated a matter as the rural banking systems of Europe, a matter moreover on which no English treatises exist, save only a few blue books and Commercial reports and, in 1894, the work of Mr. Wolff on Popular banks, it would have been impossible for the writer to have obtained the necessary material, had not the first start been given him by the works and by the assistance of those already versed in the subject; they are too numerous to mention, but it is impossible for the writer to omit his thanks to M. Tisserand, Director of Agriculture for France, to Dr. Thiel in the same department in Berlin, to M. Louis Durand for the assistance afforded by his standard work on 'Le Crédit Agricole,' to M. Josseau, the learned author of the manual of the 'Crédit Foncier,' and to the numerous other gentlemen who have given their assistance both in this country and in Europe. Had the acknowledgments due to all authors

and reports laid under contribution, been made in the body of the work, they would have involved innumerable notes; it has, therefore, been thought better as well as more useful, to enter all works, reports, etc., consulted, in a Bibliography, which will be found in the Appendix; a list of those who have kindly sent answers to the numerous local queries issued for the purpose of this report, will also accompany the appendix.

A completer and more detailed bibliography will be issued in another appendix: the present one has been written in haste from camp from such lists of the writer's library as were then available.

The list does not profess to be a complete bibliography for the several subjects treated, but merely contains a list of the works, reports, etc., which the writer has been able to obtain with limited time, means, and opportunities. It would be a work of much utility to prepare a complete modern bibliography of all the principal works, reports and laws in the chief languages on each of the classes of thrift, providence, credit, and banks, touched upon in this report, together with a similar list for correlated subjects, such as the condition of agriculture and the rural classes in Europe, usury, indebtedness, the tenures of land, the *morcellement* of the land, the action of the State in such matters, the registration of titles to and encumbrances upon land, the communal system of Europe, etc. Three points have become clear to the writer in the course of his studies: (1) that many of the agrarian and rural problems which are becoming urgent in this Presidency have long been so in Europe, especially on the Continent where the '*crise agricole*' is the subject of the day—*cf.* the Imperial Agricultural Council now sitting in Berlin—; (2) that there exists a mass of information upon these problems in the several languages, which, if studied, would place Indian problems in a clearer light, would provide suggestions for positive action, and—an equally valuable assistance—would prevent numerous divergences into mistaken tracks; (3) that there is almost complete ignorance in India generally of European needs and problems, conditions, methods, failures and successes, in the subjects above adverted to, and of the frequent parallelism of European and Indian rural questions.

Most of the European sketches were in manuscript in 1892, and have merely been corrected and amplified in later years, and it is gratifying to the writer to note that his views—written almost entirely in 1892—regarding Popular banks and their suitability to countries other than those where they were developed, have been confirmed by those so earnestly expressed by Mr. H. W. Wolff in his book above mentioned.

The report itself is intended merely as a summary or index; the real report is in the several appendices, of which only the first accompanies. Seeing that Europe has for at least 50 years been studying and working at the subject of Rural Credit under its several forms; that almost every conceivable scheme has, during that time, been formulated—in France alone more than 200 are said to have been actually proposed—; that numerous systems under the heads of Real, Chattel, and Personal Credit have actually been started and are in more or less successful operation; that the conditions of Europe are, in many countries, similar to those of this Presidency, whether in the tenure of land, in the prevalence of indebtedness, in the rapacity of the usurer, or in the characteristics of the peasantry, it was obvious that a study of European conditions and attempts at rural banking, whether successes or failures, should precede any proposals for this Presidency.

It was necessary to know what had been done in Europe, why it was done, and why any system had succeeded or failed. The result is the series of studies represented by the several chapters of Appendix I on European indebtedness and credit systems. Other appendices will follow; Appendix II will contain a translation of or excerpts from the banking and society legislation of Europe and America, and will, it is hoped, form a fairly complete English compendium of those laws; it will also embody translations of the model articles of the several classes of institutions and an index which the writer has not yet been able to prepare; a third appendix will, it is hoped, present manuals for the several classes of popular and savings banks, together with a much more detailed study of Madras systems of credit and indebtedness, though it would seem preferable that such manuals and enquiries should be undertaken by the Agricultural Department.

Appendix II will be issued very shortly, but it has been thought well not to delay further the main report merely in order to present the matter complete. It is, however, a matter of much regret to the writer that the model articles of the various European banks and the laws which govern them, could not be presented at the same time as the accompanying set of studies.

Those studies represent mainly the notes made during the progress of each study; they may contain much that may be thought unnecessary, but it has been judged advisable to print them as they stand, since the labour of compiling them was very considerable, and since it is possible that what now seems irrelevant may prove to be important. The chapters are consequently left as they are for the perusal of those who wish to know the general characteristics of the chief European systems, while the 'Bibliography' will assist those who desire further information. It is impossible to predict what systems and what forms of organized credit may obtain favour or take shape in Madras; hence the mass of material is left from which experts may select what seems likely to assist their endeavours. For instance, the suggestions of this report are chiefly concerned with the introduction of banking credit for the mass of small proprietors, since men of large or considerable properties can usually obtain credit on fair terms with existing banks, or should have sufficient business capacity to unite in capitalizing credit banks of their own without calling upon the State for aid. In fact at this moment (January 1895) a proposal has been made for the establishment of a Zemindar's Bank, and should this proposal be seriously taken up by the Landholders' Association, they will find in the chapters on Real Credit a fairly complete sketch of the methods of Europe, especially of the Mutual Land Banks of Prussia, and in Appendix II a translation of the laws affecting those and other banks. The proposals indeed of this report for banks in general will suit both large and small banks; *see* chapter on Joint Stock Banks in the draft bill.

The studies themselves are, of course, only sketches; they are in no sense manuals. The hand-book of the French 'Crédit Foncier,'—the institution which bears that name, not 'Crédit Foncier' or Real credit in the abstract—by M. Josseau, is a treatise in two thick volumes, and, even with the imperfect information at the writer's disposal, it is obvious that a treatise merely on Real Credit in Europe would be the work of years and require volumes; hence a study which is required to range over not merely Land banks, but over all those classes of rural thrift and credit included under the head of Agricultural banks, cannot but treat the subject less closely than is desirable. It is hoped to provide, gradually

manuals with model forms and accounts for each class of banks; that is, to expand each study into a manual, and to provide with each, suggestions for this country; but that will be a work of years. The manual for the Italian Popular banks is a volume of above 550 closely printed octavo pages; a similar manual for this Presidency would be a work of great labour and should be of much value, but could, perhaps, only be written after some years of practical work.

The scheme of Appendix I—the real report—is as follows: a chapter on credit in general forms the first study, since a perusal of the Indian literature on the subject and the voluminous replies to questions framed for this report, show that the conditions and functions of rural credit have not been altogether appreciated. The postulates of credit, its applications and limitations are therefore briefly dealt with; the absolute necessity for 'proximity' is insisted on; only local banks can deal with small folk; the necessity that lenders shall be secure of the full and punctual return of their loans, and that the borrowers shall be safeguarded in their dealings with lenders, is equally maintained. But in this and in the following chapter on 'indebtedness,' it is especially sought to bring out the fact that the establishment of banks, great or small, is, *per se*, no remedy at all for rural indebtedness, and may indeed, seriously aggravate the difficulty; it is not mere facility or cheapness of credit that is desirable, but a safeguarded, educative credit; a credit, moreover, based not upon subventions from the State or upon any system not thoroughly businesslike in its principles, but based upon the thrift and prudence of associated members, whose savings and character attract, in the ordinary way of business, abundant deposits from the saving public; it is thrift and prudence, not charity or State aid, which must be the basis of all true credit, such as will benefit and develop, and not enervate and paralyze a nation. This credit is that which is being sought, and to a great extent successfully, in Europe.

The chapter on the indebtedness of the European peasant is introduced to show not merely that indebtedness is the common lot of agriculturists, especially of the smaller folk, but to prove that such indebtedness is not in itself the work of the usurer, though its mass may be increased, its miseries may be exacerbated, and its evil effect upon independence developed by his action, but of social conditions and characteristics, and even of the actual benefits and modes of progress which during the century have gradually developed in or been introduced into Europe; indebtedness cannot be got rid of—it may be increased—by substituting banks for money-lenders; no mere change in the machinery of credit can eliminate the difficulty. The countries where rural debt is most marked are those where cheap banking is almost universal, as in Switzerland and Norway, and this has been brought about not merely by seasonal stress, and by misfortune, but by the actual facility for credit, by the introduction of seemingly just laws as to inheritance, by the removal of feudal disabilities, by the wonderful developments in communications of which this century has seen the introduction and of which it is justly proud.

Passing then to the methods and institutions by which Europe has endeavoured to solve the problem of indebtedness, credit has been displayed under the several heads of Real, Chatel and Personal. The first class of credit, viz., Land Banks, is dealt with in one chapter by countries, special prominence being given to the mutual system as exemplified in the German Landschaften, and to the Crédit Foncier of France as a Joint Stock Company of a quasi-public character. The next chapter deals with the same matter not by countries but by subjects. It will

be apparent from those chapters that the Land Banks of Europe are not organized for dealing or cannot succeed in dealing with the small folk; loans required by such people are too small, expenses are too great, and the profits too inconsiderable, to make the business possible. State Banks especially, are, except in the case of petty principalities or States, a failure as regards small land credit. Speaking generally, the only institutions which deal in very small mortgage credit are the Swiss Banks, all local, and the Building Societies of Great Britain and the United States of America. On this latter class of society, now beginning to be called Co-operative banks, a separate section is entered, not merely because of their ability to provide small mortgage credit upon the terms required by the postulates above mentioned, but because they are the prototypes of the Madras Nidhis or Loan Funds, which, in their way, have already achieved some success in this Presidency as Popular Banks.

The next chapter deals with what is called in Europe 'Le Crédit Agricole,' that is, all classes of credit for agriculturists other than real credit, including pawnbroking and advances upon crops, bonds or bills on personal security, and the like. It will be seen that attempts have been made to supply this credit by special institutions and special laws, but that such have been a general failure; it does not seem possible to specialize agricultural credit and to treat it as a thing by itself; what is wanted is simply rural banking.

The subsequent chapter is one of the most important, as it deals with 'Popular Banks' under their several systems. These are generally co-operative, that is, the whole of the bank operations are conducted by the members and for the members; the society does not consist of a fixed number of transferable shares which may be transferred to and held by any one soever, but of a congeries of men all personally selected for admission to membership; the holding of a share does not make a man a member as in a joint stock society, but membership gives a right to and requires the holding of a share; the society is an aggregation of members not of shares. Moreover the borrowers are the members and the members only; the interests of the bank are bound up with its members, that is with its borrowers, and the result is not merely safety to the borrower, but great facility and cheapness of loans—since all profits return to members—coupled with a very distinct moral influence by the society over its individual components. These societies are described in some detail as they provide credit even for the smallest folk, but usually upon what in banking is technically termed 'character,' *i.e.*, on security based upon the general status, position and character of a borrower and his sureties; mortgages are little used by these societies which are specially adapted for what is known generally as 'agricultural credit,' that is the loans for the current needs of the agriculturist and for his working capital.

It is in this chapter that the Building Societies of England and the United States are noticed; the section on this subject should have been particularly full, since the Nidhis of this Presidency are obviously developments of the same system, while the methods of the Western Societies provide much useful matter for consideration in the East. Unfortunatelyth e writer has not had time to re-write the first imperfect draft, especially as a brand-new law has just (1894) been passed on the subject in England. It has, however, been thought advisable not further to delay this first instalment of the report, but to present a revised chapter on the subject in the forthcoming Appendix II.

Following this chapter are studies on various special classes such as Monts de Piété, Positos, Agricultural Associations and the like. The Positos and Monti Frumentarii of Spain and Italy respectively, are especially worth study, as providing grain credit for the poorer cultivators. The Agricultural Associations are not only important in themselves, but are, in France, developing agricultural credit by means of special annexes, as at Poligny.

A further chapter deals with Savings Banks; this is entered not merely because a leading suggestion of this report is that personal thrift must be the basis of true credit, but because the Savings Banks of Europe and America are amongst the greatest Land Mortgage banks in the world. In England, France, and India the Savings Bank is one which accepts the petty deposits of the small folk, and, for the purpose of absolute safety, invests the whole of the deposits in the State Treasury. But in Germany, Austria, Italy and the United States, the Savings Banks have, within certain limits laid down by law, the free disposal of their funds; one of the permitted investments is first mortgages, and it is found by long experience that these are perfectly safe. In Prussia, for instance, above half of the deposits are invested in mortgages; this means above £90,000,000, and half of this immense sum is invested in rural mortgages. The study of these banks is most interesting, especially when, as in Italy, they are almost entirely worked gratuitously either through trustees (as in the English Trustee Savings Banks) or by public bodies, or by public or quasi-public institutions such as Monti di Pietá: the section on the great Milan Savings Bank is especially interesting.

It was intended to discuss somewhat fully the question of the registration of title, but it was found impossible, in a chapter of a report upon banks, to deal adequately with a subject of great intricacy and difficulty, which requires of itself years of study and research. Moreover, since it is believed that the desideratum for this Presidency is local village banks and not central banks, the importance of a complete system of registration is, in this connection, inconsiderable, since local banks are sufficiently acquainted with borrowers to dispense with searches in registration offices, and are usually able to prevent any fraud by local influence and knowledge. As regards encumbrances, a recent Government order has provided a system of indexes which will enable any bank to ascertain prior encumbrances with the minimum of difficulty and maximum of certainty. The question requires and deserves separate study.

From this sketch of European institutions and methods, the appendix proceeds to a review of Madras systems of credit and Madras indebtedness. The chief point for remark is that, with one exception, Madras rural credit is entirely provided by the individual money-lender; this money-lender, though essential in the absence of banks, as shown in the first chapter, is expensive and dangerous; not always dangerous, but always possibly dangerous. While fulfilling the condition of proximity he is not a safe source of credit, nor can he, dealing as he does with his own capital only with some borrowed additions, supply capital to any amount at any time for any period, nor can he usually receive it back by convenient instalments. Nor, since he is an individual, can he be trusted with personal powers of summary recovery, so that he does not enjoy the 'security,' which is a postulate of cheap and ready credit. Hence the money-lender régime must, as in all countries, be gradually replaced by that of the banks.

But indebtedness, while serious, must not be exaggerated. Observers, looking only at the worst cases, often in towns where the worst usury is practised, and perhaps knowing only local facts, are apt to take very gloomy views, whereas a larger induction from Presidency facts, and a comparative view of European facts, show that the Madras ryot is in no way in a hopeless condition. Many of the poorer or labourer-ryot class are in great and chronic embarrassment; so also the numerous class of labourers, servants, and the small-salaried classes generally; but the mass of ryots is not deeply indebted. The mortgage debt especially is moderate, and does not, as it exists in any given year, *aggregate* one-half of the value of the annual crops. It is also certain that there is a considerable amount of actual coined wealth, in addition to the value of the soil, stock, crops and buildings, which a judicious banking system would bring into fruitful use, while it is equally certain that there is a great number of intelligent men, who habitually deal with communal and other matters involving many complications and requiring considerable ability, and with Government operations and calculations demanding considerable intelligence and knowledge; these with a large number of officials, retired and otherwise, are available for local banking operations.

That small banking associations are possible is shown by the one exception to the régime of the money-lender, viz., the 140 Loan Funds or Nidhis. Many of these are situated in the mofussil, and are entirely managed and financed by the people themselves, not merely in spite of the absence of State or other extraneous assistance, but notwithstanding positive legal difficulties, and notwithstanding the disability of officials, till of late, to take an active part in the administration of these societies. A chapter is entirely devoted to a description of these societies and their methods.

It follows, then, that if the principles of rural banking are made widely known, and are accepted by the more intelligent classes, and if the law and the executive will assist the development of societies by suggestion, by the removal of disabilities and obstacles, and by the grant of various privileges, there is every hope of a rapid and wide development of small local societies, chiefly co-operative, thoroughly in touch with their clientèle, independent of State aid, gathering in idle hoards and petty savings, providing facile, cheap, and above all safe and educative credit to their members, secure in the repayment of their loans, and exciting, in a high degree, those great national qualities of thrift, prudence, self and mutual help not merely in credit but in other directions, without which no nation can obtain a healthy and vigorous development.

The following chapter on 'Law,' therefore, deals largely with the necessary development of the law of societies or company law, in this country. Based upon a comparative study of those laws of Europe and America which deal with thrift, providence and credit especially as regards the poorer classes, it suggests various reforms in, and additions to, the laws of this country, showing that while the general company law of Europe is extremely thorough and complete, there is in every country a body of law outside the general company law, which deals solely with institutions of the above nature, such as Co-operative Societies and Banks, Building Societies or Co-operative Banks, Savings Banks, Benefit Societies, Loan Societies, Agricultural Associations and the like. This country alone is devoid of even the semblance of such a law, the only company law being that of 1882 and 1887, based upon the English law of trading companies, which, even in England,

is not applicable to institutions for thrift, providence and co-operation. Most of the suggestions of this chapter are compiled into a draft bill, not indeed intended as a bill for legal purposes, but to throw into crisp and definite shape the several suggestions and recommendations derived from, and made in, the course of the previous studies. The bill provides a separate chapter for ordinary Joint Stock Banks for rural credit; this contains certain general administrative provisions, suggests special methods of financing the banks, and grants various privileges, and, as a corollary and in imitation of the universal provisions of European and American systems, provides a certain amount of State and other supervision, chiefly by means of a Commissioner for rural credit who should combine the duties and powers of the English Registrar of Friendly, etc., Societies, of an American Commissioner of Savings and other banks, and of the Italian Director of Agriculture, Trade, and Industry, who, in Italy, is expressly charged with the supervision of thrift, credit, and popular beneficent and prudential association. It is believed that not a single provision is novel or wholly so; there is a parallel for every item throughout the bill. The next chapter of the bill deals especially with Co-operative societies and banks, and while applying most of the provisions of the previous chapter, grants additional and important privileges with the avowed object of promoting co-operative societies of the German and Italian type. The subsequent chapters of the bill deal with Savings Banks, Agricultural Associations, and Land Improvement Banks.

It is to be expressly noted that in all countries where matters of popular thrift, credit and self-help are in consideration, State supervision is *invariable*; nowhere more so than in England and America. In this latter country, indeed, the laws of every State provide extraordinary supervision over every class of bank, including all trading banks. It is not, then, a matter of surprise that some such provision should be entered as one of the main suggestions of this report.

Still less—the contents of the appendix being considered—is it a matter of surprise that Co-operative Banks should be especially suggested as the desideratum of this country; the studies of this report will have been written in vain if this idea does not obtain general acceptance; several years of study given to this subject, without previous predilections, have at least forced this idea upon the writer. Nevertheless it is not one system that is to be sought; there is room for all the various classes of bank; only it is believed that in no class save the co-operative, will be found united the several desiderata of a safe and sanative rural credit.

The pith of the whole report is, in fact, contained in the following propositions.

All farmers, especially small proprietors, must of necessity and will borrow at one time or other; the mass borrow habitually.

Such borrowings are seldom for land improvements, but are the result of laws, customs, surroundings, social characteristics, seasonal difficulties, isolation from open markets, and the like.

Hence the radical remedy for indebtedness is not in the organization of credit, but in the removal from the farmer of all unnecessary disabilities, and in the promotion of all possible improvements whether in customs, in social characteristics, in executive demands and systems, in the opening of markets, in the spread of sound education, in the development of agricultural and industrial methods, and so forth.

Nevertheless the organization of credit, which is the subject of the present enquiry, is, in itself, an important palliative, since the cost of the necessary capital can thereby be largely reduced, so that the farmer may borrow without hopeless and life-long embarrassment. Particular modes of organization not only effect this object, but are introductory of other essential developments.

Generally speaking, banks are not available for small farmers, and the private money-lender is the only available source of credit. This source is rudimentary and defective in method and in its supply of credit, while it is open to many serious objections, amongst which is undue dearness of credit; in this Presidency from 9 to 18 per cent. are ordinary rates, 12 per cent. being 'dharma vatti' or equitable interest.

When interest on borrowed money is at 12 to 18 per cent., the profits, even of land improvements, must be swallowed up by the interest; *à fortiori*, credit at 12 to 18 per cent. for purposes other than improvements must reduce the farmer to poverty and keep him a dependent pauper.

If interest can be reduced to, say, 6 per cent., the burden of indebtedness would be halved, improvements would be profitable, and debt no longer mean pauperization.

But the mere reduction of interest to 6 per cent. would not mean necessarily or generally a reduction of indebtedness; rather, as rural economic history teaches, would it mean a greater mass of debt; borrowings would be larger because of the cheapness of money; the annual cost would remain the same, but the volume would be doubled.

It is, then, essential to discover methods of credit which, while supplying capital at half of present rates, will equally tend to keep the borrowing down; it is believed and urged that Co-operative Credit societies or Village banks will not only achieve or tend to achieve these objects, but will equally develop many desirable and even essential characteristics such as those of thrift, prudence, self and mutual help, will initiate those forms of co-operation which tend to assure to each man the full value of his labour, and those stimulating ideas of progress so greatly needed by a conservative and isolated peasantry; such societies will, as in Germany and Italy, "everywhere form centres of economic and moral progress (*De Laveleye*)."

It may be asked why, since report was required regarding both land and agricultural banks, direct suggestion has only been made for village banks. It is replied, that land banks, *i.e.*, banks devoted solely or chiefly to land mortgage credit, do not appear to be either suited to or needed by the ryots of the Presidency. The clientèle of the banks will consist of very small folk requiring very small loans; no land bank can deal in such small business, for the cost of enquiries, the risk of bad business, the worthlessness of petty parcels of land to a central bank, prevent a land bank from dealing with such folk, as the experience of Europe amply shows. It is true that there are numerous mortgages in this country, but half of these average only Rs. 44 apiece, and most of these would be wholly unnecessary if ordinary credit were properly organized through village banks; a mortgage deed with its stamp duty, registration charges, witnesses batta, etc., for a loan of Rs. 25 to Rs. 50 for six months or a year, is an absurdity, yet is an absurd fact for more than 50,000 registered mortgages annually. The vast bulk of agricultural and rural credit can and should be granted by village banks.

It may be argued that the land requires improvements, that the ryots want capital to sink in such improvements, and that land banks are necessary for that purpose. It is replied that though the land may need permanent improvements, that is not the primary aim or desire of the ryots; his first desire and his first need are to get rid of debt and to keep out of debt, to borrow cheaply for current needs and to repay conveniently. That is the work of village banks, and it is only when this vast business is fairly in hand and in a fair way of success, that the ryot will turn towards permanent improvements, which are but a burden to him if he cannot keep their proceeds for himself. Land improvement is slowest and last in development; the land improvement banks do scarcely any business in Germany where the mortgage and other debt is enormous. The improvements in agriculture at which the ryot first aims are those which he can effect by a better general condition of his finances, and this is the work of village banks as shown by the operations of the Raiffeisen and Wollemborg banks.

The final chapter deals with such recommendations as the writer has been able to make in addition to or in explanation of the entries in the chapter on "Law" and in the draft bill. Certain special items in the development of banks having been dealt with, proposals are made regarding the management of village banks, their organization, functions and methods; this part of the chapter is, in fact, an explanation of the reasons for the various rules of the model articles which are contained in its final section. These articles are merely tentative; it is impossible to predict the exact form which they will take; they are mere suggestions based upon the experience of the European systems. No attempt has been made to propound articles for larger banks; the business men who may desire to start such banks, will do so with facility when it has been decided whether the privileges and methods proposed in the draft bill are or are not practicable. Model articles and recommendations for Savings banks proper, and for Agricultural Associations will follow in another appendix.

It is, indeed, difficult to work out in detail in advance any distinct scheme; it is impossible to say what methods will best suit the genius of the people. But if it is difficult to propose in advance the full working details of a single system, it is absolutely impossible to propose a complete scheme for the general establishment of banks throughout the Presidency. Correspondents and others appear to expect some all-embracing scheme by which banks would be made to spring up throughout the land.

That is precisely what seems impossible; no such thing has ever succeeded in Europe or elsewhere; hundreds of cut and dry schemes have been proposed, but not one has ever succeeded, except perhaps the Land bank system of Prussia, which with extraordinary prescience, Frederick the Great founded by simple fiat. Yet even these grew but slowly; they were not for the masses but only for a class, that of the nobles; they were very few in number and slow of growth, and they required a great deal of attention and modification in practical working. Every one of the systems which have dealt successfully with popular savings, help, and credit, has grown out of the smallest beginnings by a slow and painful development; the Schulze-Delitzsch, quickest of growth, took many years of solid, incessant work,—not merely writing or talking—before its principles were fully developed or finally accepted; the Raiffeisen system, dealing with the rustics, was of far slower growth; the Savings Banks system and the great Benefit, Friendly, Co-operative

and Building Societies systems of England and the United States of America, began in the smallest of ways and slowly worked out their problems in actual practice; the problem seemed insoluble, yet—*solvitur ambulando.* No man could, especially in a country where banking credit is a thing absolutely unknown, fashion out a general scheme; even if worked out, it could only be imposed and would not of itself grow into fact; a report can describe and suggest, but it is for the people themselves to work the suggestions into practical shape by experiment, since it is not expected that the State will interfere directly either in initiating or administering such institutions. Hence this report has described existing facts and methods both in Europe and in this Presidency, and in the chapter of recommendations, in that on "Law," and in the draft bill will be found the general proposals for a variety of banking systems. It is impossible to foresee the system or systems of the future, but the recommendations made provide everything which has suggested itself to the writer for the development of banks. There is no real obstacle even at this moment to such development; the law and the executive if not favouring, are not in any way hostile; quite otherwise; but if the suggestions of the draft bill are accepted and properly drafted, with all necessary amendments and modifications, into a working law, they will suggest and assist the development of banks in a very marked degree. This country is essentially imitative and adoptive; so far as has been possible, the facts of other countries have been given, and suggestions made; it remains for those who believe in banks, and in the reform of rural credit, who are seriously interested in the economic and moral advancement of the ryots, and who dwell amongst and are of the people, to obtain the passing of some such law as has been sketched, and to sit down and develop by actual practice the system or systems of the future. Possibly one of such systems will be found in a modification of the existing Nidhi, which at present is not quite suitable for agricultural needs, but can be easily adapted; indeed it cannot be doubted but that had a favourable law and due supervision been in existence during the last twenty years, these Nidhis would have already attained a tenfold development. The future of rural credit lies with those who being of the people, live among the people, and yet by their intelligence, prescience and energy, are above the people; such were the reformers of Germany and Italy who have introduced the great systems of popular credit in those countries, and, taking the word 'Raiffeisen' not as indicative of a particular person or system, but of the zeal, energy, patience and continuous devotion so thoroughly exemplified in that great reformer, and of the spirit of co-operation, thrift, self and mutual help so thoroughly developed in the above and similar systems, the whole of this report might be summed up in the two words 'Find Raiffeisen.'

ANANTAPUR, 1895. F. A. NICHOLSON.

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REPORT.

REPORT is required regarding the possibility of introducing Land and Agricultural Banks in the Madras Presidency.

2. The problem requires to be stated exactly, the words 'possibility,' 'introducing,' 'Land bank,' 'Agricultural bank' needing explanation. It is also to be noted that the problem is for the Madras Presidency alone.

(*a*) The word used is *possibility*, not advisability or necessity; it is assumed in the Order that banks are necessary; the question propounded is simply whether their establishment is feasible. Hence this study similarly assumes the desirability of, and even necessity for banks.

(*b*) It is the possibility '*of introducing*' banks on which report is required. The words have been generally taken by correspondents and the public as meaning or connoting the idea of a State foundation. That is evidently not the true meaning. The order contemplates an inquiry as to whether the establishment of banks is practicable; the words are used impersonally (peut on établir, etc.). Hence this study is not confined to the narrow question of State or even State aided banks, but extends to all classes of banks falling within the required limits; it will consider whether the State can or should establish, aid, or merely encourage banks, and principally, whether such banks cannot be established by the people, whether by individuals, by companies or societies, or by public bodies.

(*c*) What are those limits? What in other words is a '*Land bank*,' and an '*Agricultural bank*'?

A Land bank is one which lends *on* land or immoveables, *i.e.*, on mortgage, not necessarily *for* land; it is expressed more precisely in European languages as Banque Foncier or Hypothécaire, Boden-kredit Institute. The proceeds of mortgages may be used as the borrower pleases, *e.g.*, in paying off heirs, in portioning younger sons, etc. There are, however, special Land banks intended for Land improvement only, such as the Landeskulturrentenbanken of Germany; these are rare and exceptional. But a Land bank proper seldom lends except upon immoveable property, and for lengthy terms, and therefore does not meet the general wants of agriculturists. A loan from a Land bank is generally a serious matter undertaken for a serious purpose, and not for the minor and ordinary transactions of rural life; for these purposes a different class of banks is required commonly known as Agricultural banks.

An 'Agricultural' bank is difficult to define, but definition is necessary to correct mistaken ideas. It is not necessarily a bank for the development of agriculture, except indirectly by the development of agriculturists; it is rather an Agriculturists bank, *i.e.*, a bank intended for the cultivating classes, from which they can borrow for all their various needs, whether for the improvement of land, the erection of a house or farm buildings, the purchase of stock, the paying off of prior debts, the maintenance of the family, etc. But banks which can do this can also lend for corresponding purposes to non-agriculturists, such as the village or town artisans, shopkeepers, small contractors, etc. The establishment of rural industries is very important, and if a bank can serve both cultivating and other industrial classes without difficulty, it should do so. The word agricultural is therefore unnecessarily restricted and even incorrect. There is in fact no such thing in the world as an Agricultural bank, pure and simple; even the Raiffeisen and Wollemborg banks which approach most nearly to the definition, are as open to all industrials, shopkeepers, etc., as to cultivators; it is not the *status*, but the character of the individual which determines membership and loans.

Again, it is obvious that the Government order does not concern itself with urban or commercial credit; it is the credit required by persons owning land and practising or connected with agriculture and other rural industries. The only town where such rural industries are of little or no importance, and where Commercial banking is supreme, is the Presidency town, to which consequently this

report will not apply. All mofussil towns, however, are intimately connected with agriculture and are largely rural.

What is really wanted then is the organization of credit outside the Presidency town; for such organization it is not certain sharply defined or carefully restricted banks that are needed, but banks of various classes, each one of which may serve the agricultural classes in their several needs, and yet include other industries as well. For the purpose then, of this study 'Land and Agricultural banks' will be taken to mean Mofussil banks or Rural credit, and the banks to be considered will fall under several necessary heads, viz., Land Mortgage banks, Land Improvement banks, Building societies (so called), Monts de Piété, Popular banks, Loan societies.

3. In Europe the several classes of Rural credit bank fall under the several classes of credit, which throughout Europe is divided into Real Credit (Crédit Foncier or immobilier) and Crédit agricole, the latter being a term technically used to mean all credit not real, and includes chattel credit or pledge of moveables, and personal credit, or credit based on status, character, general position and means, suretyship, etc. Under this definition the first three classes of bank fall under Real credit, the fourth under Chattel credit, and the others mainly under Personal credit. The Madras Nidhi or Loan Fund, is however an institution which by its rules grants every class of credit; but in practice, each bank according to locality, deals principally in either the first or third class of credit, the second class being equally common to all. To the above must be added Savings banks, which, in Continental Europe and in the United States, are banks which place their funds to enormous amounts in first mortgages, in loans and credit banks proper, and in other credit transactions.

The primary object then of this report is to consider whether it is possible for mofussil credit to develop in an organized form, *i.e.*, in any or all of the various classes of banks above mentioned; if so, upon what principles, by what methods, and under what auspices.

4. It is, however, obvious that as all capital is derived from savings, and as all credit should be based on thrift and prudence, the stimulation of thrift and prudence is a necessary antecedent to the grant of credit. It is emphatically *not* the mere outpouring of cheap capital that is required, *not* the mere grant of cheap and facile credit to classes unprepared for the boon: what is wanted is the promotion of facilities for saving, the encouragement of banking deposits, the inculcation of the true objects, uses, and limits of credit; in other words the development of the essential national virtues of thrift, foresight, and self-help, through institutions organized for those ends. Hence the object of this study is, necessarily, not mere rural credit-banking, but the promotion and development of all institutions which, while furthering useful credit, base that credit largely, perhaps chiefly, on previous thrift, and are thus able to exercise over their members a beneficent influence in the direction of self-help; still more specially those which being based on the principles of co-operation, bring the isolated units of society into association, and, by association, teach the benefit and virtue of mutual assistance in thrift and in credit, in combating improvidence within and usury without, in developing industry and in assuring to men the full results of their industry, in stimulating men to new ideas of life whether economic, social or moral.

5. *Credit—Universal necessity for Rural credit.*—The history of rural economy, alike in Europe, America and India, has no lesson more distinct than this, that agriculturists must and will borrow. This necessity is due to the fact that an agriculturist's capital is locked up in his land and stock, and must be temporarily mobilized; hence credit is not necessarily objectionable, nor is borrowing necessarily a sign of weakness. But such borrowing may be abused, and indebtedness may be a symptom and a cause of danger, if the conditions of credit are unsound or defective, if borrowing is not a mere temporary, productive mobilization of capital, but the result of ignorance, improvidence, recklessness, misgovernment, social defects, or even social arrangements such as the laws and customs of inheritance. Credit is a necessity, and borrowing and indebtedness are useful or dangerous in proportion not merely to the use made of the sums borrowed, but in proportion as they are the result of a prudential foresight, or of necessity extraneous to the demands of agriculture.

As a matter of fact the agricultural classes all over the world are in a state of extreme indebtedness, due very largely to causes outside of the demands of agriculture, such as to poverty, ignorance, carelessness, the laws of inheritance, foreign competition, seasonal disasters and epidemic diseases, and the demands of usury; this indebtedness is recognized in Europe as a position of danger, and every country is seeking its remedy, usually in the direction of organized credit. While recognizing, however, the necessity for organizing and cheapening credit, it is obvious that, since indebtedness is not due merely to the action of the usurer, no mere change in the machinery of credit can of itself effect a radical cure; it can, *per se*, only palliate the symptoms, or retard the catastrophe.

6. *The conditions of credit.*—The conditions of credit may be summed up as follows: absolute *proximity* of lender and borrower; complete *security* to the lender as regards the title of the property offered, its freedom from prior encumbrances, the recovery of his capital and interest at due date, in convenient amounts, with facilities for enforcing such recovery in case of arrears; thorough *safety* and *facility* to the borrower, in his ability to obtain cheap loans, at any time, to an amount proportionate to the security he can offer, and upon terms which will be so equitable in themselves, so convenient as regards repayment, so free from all risk of deliberate entanglement, so based upon published rule, so devoid of any tendency to discount necessity or urgency otherwise than by an equitable insurance, that he can calculate on reaping the full fruits of his prudence, and find, in credit, a powerful auxiliary to his productive powers and stability. In particular, the terms of repayment must be such that he can replace the loan from the profits of the transaction for which it was obtained; an improvement to land must be repayable by instalments over a long series of years; a purchase of stock must be similarly repayable over a shorter series; advances upon crops or for maintenance may be repayable in lump or by instalments according to convenience. It is axiomatic that loans sunk in improvements or enterprises in which the returns are gradual, shall not be repayable except by instalments over a period proportionate to the nature of the enterprise.

Judged by these postulates the régime of the individual money lender is wholly defective; he satisfies, indeed, the condition of proximity, but it is impossible for him, trading as he does upon his private capital supplemented merely by occasional borrowings, to satisfy the demands for loans at any time and to any amount; he has no rules save those of his own conscience, and they are variable at pleasure; he is but too prone—it is the imperfection of human nature—to exact terms high in proportion to the urgency of the borrower's need, and not in proportion to the security offered; his accounts, if kept at all, are just what he chooses to write and no others, and are subject to no check or audit: he is apt to be swayed by greed whether of money, land or power; he cannot consent to lock up his capital for a lengthy series of years, or to receive it back in infinitesimal driblets, indistinguishable from the interest with which they are paid. On the other hand, since it is impossible to trust the individual money lender with the powers of distraint or other summary recovery, he is put to considerable expense, delay, loss and fraud in the recovery of his loans, a loss which he recoups with a handsome increment from his clients, so that the punctual and honorable borrower pays for the offences of the defaulter.

It is, then, certain that the substitution of organized credit for that of the money lender is a necessary development of civilization; the individual system is only an elementary stage which must be eventually passed as general wealth, order, business confidence, and habits of association develop. The questions for consideration are the direction in which such credit shall develop, the means by which it can be encouraged, the modes in which it will work, and the effects which it can be made to produce upon the nation.

7. *The functions of true credit.*—In the present study it would be out of place to discuss the remedies for the ill plight of agriculture other than that of the organization of credit; it is permissible merely to point to the lessons of history as teaching the unexpected and indeterminable difficulties of the social problem, even as regards agriculture. Liberty was granted to the feudal *quasi*-serf by the admirable legislation of Von Stein and Hardenberg, with liberty of action as

regards the land; the unforeseen result is the existing mortgage debt of about £500,000,000 in Prussia alone. Equality was the revolutionary demand, and equal rights of inheritance a natural and just corollary; again the result has been the overwhelming indebtedness of the peasant and the infinite *morcellement* of the land even in industrial Europe. The problems threatening Indian agriculture are precisely the same in nature, though not yet in degree. Human nature is everywhere the same, and an uneducated nation largely composed of isolated, ignorant units, suddenly endowed with new rights and new values, suddenly placed under the régime of complete individual liberty of action, will invariably pledge those rights and those values, till it is found that it is only the form and not the fact of servitude and dependence, that has been altered.

When, therefore, we are considering the poverty and indebtedness of the ryot and suggestions for his relief, it is idle, even mischievous, to fasten attention on one cause or set of causes, and equally idle to insist each upon his own special remedy as the one panacea for rural difficulties. The eradication not of indebtedness but of undue indebtedness, can only be effected by the slow, persistent, simultaneous action of a diversity of active remedies, the nature of which is partly indicated above, but necessarily differs for each community.

But the present study is expressly confined to the remedy found in the organization of credit, a remedy, however, of almost unbounded potentialities provided that it is so prepared as to contain the alterative and tonic elements of national vigour. The mere supply of cheap capital *ab extra* is no sufficient remedy; it would probably intensify the difficulty by increasing the load of debt; even the supply of such capital by the 'organization of credit,' *i.e.*, by the establishment of banks, is inadequate as a radical means of relief.

It is *not* merely cheap and facile credit that is required; it is a credit which must indeed be cheap, and facile in that it shall be ever at hand, but it must be credit which shall only be so obtainable that the act and effort of obtaining it shall educate, discipline and guide the borrower; it should be granted only to those who have learned to think, to plan, to save; the method of providing it must teach the lessons of self and mutual help, and suggest the extension of those lessons to matters outside of mere credit; it must be safe not merely in eliminating the dangers of usury, but in being controlled, heedful, and productive.

Hence, while studying credit and preparing for its organization, the object to be borne in mind is not the introduction merely of cheap capital or of banking credit, but of that system which shall most readily and thoroughly develop essential national qualities; those systems of banking are to be preferred which tend in themselves to this result, and the efforts of the State whether in its legislative or in its executive capacity, should be directed towards the promotion of such systems. Not joint stock banks merely, still less State banks, or banks financed by the State for the mere issue of capital, but Mutual Credit Unions, are the desideratum; co-operative societies where the isolated learn the value and powers of association, where the ignorant are taught the lessons of business, the reckless learn heedfulness, thrift and prudence, the idle and intemperate return to industry and sobriety; where the prudent, the sober, the skilful, the well-to-do unit with the poorer and weaker brethren in an association of mutual help and insensible self-development.

Poverty and indebtedness may not disappear even when such systems attain full vigour and extension, but the student not of mere economics, but of national character and development cannot but believe that a nation in which such institutions are matters of course in every village, will be in the way of development as a nation of temperate, self-reliant, independent yet united men. This is no dream of Utopia, for systems, still in their infancy even though their societies are numbered by thousands, are working on these lines, with the results which may be studied under the head of 'Popular banks' and 'Credit unions' in the first appendix.

It is unnecessary to dwell here in detail on the need for thrift; it is self-evident, especially in these days of provident institutions. The subject will necessarily find place in various parts of this report, and its power and institutions are discussed *passim* in the several appended studies, especially in the chapter on 'Popular banks,' as being associations which develop not merely thrift, but other essential national qualities; these will also come into prominence later on in this report.

There is, however, room in India as in the West, for many classes of banks; the joint stock bank is of value in its command of resources, and in its skilled management; the co-operative union is a desideratum for every village; the Mont de Pieté, probably as a branch of some other institution, is particularly needed in a country where savings are invested in jewellery; the Savings bank whether as a separate entity, primarily for the receipt of deposits, and secondarily as an investor of those deposits in safe loans, the Agricultural Association with a credit annex, the Land and Land Improvement bank for the larger estates and enterprises, the village clubs for the purchase and supply of stock, the village granary or Posito, storing surplus grain at harvest and lending it out in the cultivation season, will all find place and work in a duly organised system of credit; it is not co-operative unions alone that are suggested; every class of institution affording facile, cheap, and safe credit is to be encouraged. But it is believed and urged that in the co-operative system lies the larger hope for the development of rural society and industry.

EUROPE.

8. A study of the conditions and systems of Europe will clear ideas and facilitate proposals for Madras, since the problems of rural credit in the countries of the West are not dissimilar from those of the East, while their solution has been laboured at in theory, but above all in practice, for more than fifty years.

9. *Condition of the people.*—The people to be dealt with in the matter of rural credit are the landholding, artisan, small trading, and labouring classes; not the urban folk, the merchants, professional men, manufacturers and other skilled industrials. Now the conditions of the rural classes, especially 50 years ago when rural banking was first attempted for the masses, were not and even now are not of that advanced character which is associated with the European nations in their commercial, industrial, educational, literary and political aspects. The masses of French, German and Italian peasantry were, and to a great extent still are, ignorant, suspicious, conservative, isolated and poor; holding land in small and diffused patches; exploited by usurers; hide-bound by customs; incapable of associated effort; unable to comprehend and unwilling to adopt new methods however useful, new improvements however obvious; the testimony of the reporters on this point is unanimous. The description of the peasantry of the Rhine Provinces, of Italy, of the interior of France as given by their own, as well as by foreign observers, shows that, as regards rural banking, the pospects of the masses in the countries named were little if at all better than in this Presidency at the present day. For English readers, the pages of Mr. H. W. Wolff ('People's Banks') are available, as well as various works written in a less impartial spirit.

At the same time there is a large number of landholders of a totally different type, viz., the nobles or squirearchy whether of Germany or Italy or the large landholders of France. These latter classes, holding wide estates dwelling largely in the towns, liberally educated, and sharing in the demands and tastes of modern civilized life whether social or political, demanded and were able to obtain a cheaper credit than the struggling masses; they were able to combine and did combine in forming mutual land associations (Prussia) or through their persistent clamour for cheap mortgage credit induced the formation or encouragement of Land banks such as the Crédit Foncier of France and the Land Banks of Italy, or the Bodenkredit Anstalt of Hungary; they alone with the medium landholders, form the clientèle of these banks, and it is they alone who have profited by them. But the masses of the small holders and tenants, the backbone it may be, but not the brain of the nation, had no such resort; they were unaware of the power of association, unknown to and ignorant of the banks, while their petty farms or leases gave no desirable security to the urban or Land banks which served the higher ranks.

But for all classes, at least in the middle of the century, the conditions affecting association and credit were by no means favourable, except for the 'noble' landholders of Prussia for whom Land banks had long existed; communications were but moderate, education poor and even backward as in France and Italy, liberty of association was to a great extent denied or shackled; the press, especially for the masses and for rural matters, had attained no great development; the

money lender and usurious loans were the only resource of the masses of landholders, artisans and small tradespeople. It is necessary to understand this clearly, and to dismiss the supposition that the rural banking idea found at once a suitable *nidus* and a favourable environment in Europe, in which, of late years, it has so wonderfully developed; on the contrary, the idea long lay dormant, and it was due to the persistent and enthusiastic effort of individuals in cultivating the environment and in ameliorating its conditions, that success was finally won.

The indebtedness of the rural population of continental Europe is too large and difficult a subject for incidental treatment, and has been merely touched upon in a chapter in the first Appendix. Suffice it here to say that not only is the amount of rural indebtedness enormous, but that its conditions are, for the greater portion, excessively onerous. The mere *mortgage* debt of rural Prussia is said (Commercial 3 of 1894) to be £500,000,000 for a population of 30,000,000; of canton Berne £16,000,000, for a population of 536,000; of Norway £38,000,000 for a population of 2,000,000: in the case of Berne and Norway the debt includes urban debt. To these sums must be added an enormous amount of non-mortgage debts and of advances against crops. The rates of interest are from heavy to usurious; M. Durand (France) found 10 per cent., the usual rate in his neighbourhood for the medium and better class of borrowers; in Italy it is far higher for the mass of the cultivators; even in the United States the recent census shows 7·6 per cent. as the average rate on mortgages in certain great states: in Germany rural usury is considered one of the most serious of social dangers.

10. *Clientèle.*—No general statistics are available for the non-agricultural classes who largely join the 'Popular banks' and 'Building societies' of Europe; they are generally the wage-earning classes, the small salaried officials, and the small trading classes, all without special capital and dependent upon 'character' for their credit, which, as shown in the reports, was previously granted only on the most usurious terms. As regards the landowning classes the following facts are noteworthy, France and Germany being taken as instances, though not as types, of European land holding.

In France about 85 per cent. of the cultivators hold, in farms below 25 acres, exactly 25 per cent. of the cultivated area; in Germany 87 per cent. hold, in farms below 25 acres, 28 per cent. of the area. It will be seen, then, that in France and Germany there is a considerable percentage, viz., 15 and 13 per cent., respectively, who hold in medium and large farms about three-fourths of the area.

It results then that while a considerable number of landholders with a very large share of the land are probably able to obtain credit without much difficulty, the mass of landholders are wholly unable to obtain the aid of the ordinary banks; on the one hand they are ignorant and suspicious of the methods of banks, on the other the banks refuse the individually small business which alone could be offered them, since the expenses and risks of such business are not worth the trouble. Hence, while the large and medium landholders have founded or resort to the land and other banks, the small folk have universally found themselves without banking credit, and it is only of late years, viz., since 1850, or rather, to any appreciable extent, since 1860–70, that special banks have been founded in Germany, Austria, and Italy, for and by these classes; in France such banks do not even yet exist. Hence, in considering the subject of credit in Europe, it is necessary to remember that the clientèle of the several banks is sharply divided; the Land banks are for the large and most of the medium holders, but not for the small folk holding below 25 acres: on the other hand the popular banks and loan societies are for the small folk and not for the well-to-do in general; practically, mortgage credit for the Continental small holders is only obtained from the private lender or from the Savings banks. Similarly, the Land Improvement and Land Mortgage Companies of England deal with the large owners, while the Building societies are the mortgage banks of the small folk. The importance of this will be seen when proposals for Madras are considered; it will then be seen that in this Presidency nearly all landholders are of the small or lower middle class, and that there is no squirearchy, no groups of great landholders, except the zamindars and mittadars, who would form the clientèle of land banks proper, or whose individual dealings would be of such importance that large banks could afford to deal with them; the Madras business will be that of petty landholders.

11. *Classification of Credit.*—Credit is classified under three heads: Real, Chattel and Personal, corresponding to the three divisions of capital, viz., land, goods and 'character.' The chief institutions for these three classes are respectively: (1) the Land Banks of Germany, Austria and France, with the Building Societies of England and America; (2) the Monts de Piété of Europe; and (3) the Popular Banks and Credit Unions of Germany and Italy. In the West it is generally found that banks are established for and largely confine themselves to a single class of credit; the Landschaften and 'Crédit Foncier' deal solely in Real credit; the Mont de Piété is a mere pawn-broking institution, the bill of sale or pledge-without delivery being almost unknown in Latin Europe, owing to the state of the law; the Popular Bank or Union which is entirely[1] co-operative, deals chiefly in credit based on 'character,' *i.e.*, on personal bonds with personal sureties. The English Building Society, which is the original of the Madras Nidhi, almost confines itself to Real credit, while the Madras institution deals or attempts to deal with every class. Each class of bank has been dealt with in detail in the first appendix, to which readers are referred for the history, management and results of the several institutions. The lessons to be learnt from each class will be briefly summarized, some of them having already been indicated in the preceding paragraphs. The following are the banks to be mentioned: (1) Land banks proper; (2) special Land banks such as the Rent charge banks of Prussia and the Peasants' bank of Russia; (3) Land Improvement banks; (4) Building Societies; (5) Agricultural banks (Sociétés du Crédit agricole); (6) Monts de Piété; (7) Positos or Monti Frumentarii; (8) Popular banks of various types; (9) Savings banks; and (10) Agricultural Associations with Credit annexes.

12. *Land Banks.*—Land banks proper established as such, may be State, Mutual or Joint Stock. State banks are of no importance or success, except in petty principalities (Germany) where the administration is conducted by the ordinary officers of Government and the area and population are insignificant, or where the bank is able to use the communal organization (Switzerland); in all cases success is due to proximity, the areas being often less than that of a Madras taluk, and to the ability to utilize existing machinery without cost to the bank. No great State has found it possible, or has even attempted to supply ordinary mortgage credit to its peasantry; the financial difficulties, the cost of inquiry and supervision, the risks of loss, the elaborate and rigid rules requisite to minimize loss, the gigantic nature of the task and of the establishment required, have entirely ruled out this mode of real credit.

Mutual Land banks are typified by the Prussian Landschaften or the Bodenkredit Anstalt of Hungary. The Prussian banks are of ancient origin, dating from 1770, and have neither capital, shares nor dividends; all members share in the liability which is unlimited, but there is, practically, no risk. They are to some extent privileged, since they were erected by the fiat of authority; the privileges are chiefly those relating to their debentures and to the recovery of their loans. All members are bound, under heavy penalty, to share whenever called upon, in the duties of the bank, even of the most difficult and delicate nature, while the honoraria are of the slightest. These banks are solely financed by debentures; they have no share capital and accept no deposits: their debentures are issued only in correspondence with loans, and they are paid off every half-year to the full value of the aggregate of the sinking fund instalments. Their debentures are placed to the amount of about £81,000,000 on the public market, bear interest at 3½ or 4 per cent., are for very small amounts and are absolutely safe; hence the difficulty of financing the banks disappears, since the debentures are eagerly taken up by the public. There being neither share capital nor dividends, the whole profits go to the borrowers by the reduction of the cost of loans, nor is there the slightest object in taking risky business for the sake of gain, or in demanding—if it were possible—high rates of interest. The interests of the borrower are the sole interests of the bank. All loans are for long periods and are repayable solely by half-yearly instalments which include with the interest a portion of the principal. The old banks do not deal with the peasantry, but those founded subsequent to 1850 accept them as members. But neither the old nor the new are able to grant loans to the small folk, *i.e.*, to those holding below 18 or

20 acres, who form by far the greater number of proprietors; though each bank possesses several branches and operates only over an area less than twice as large as a Madras District by means of an agency almost unpaid except as to travelling expenses, the costs of inquiry and the risk of the business are such as to rule out all loans to farms below or even in the lower ranks of the team-owning class; the minimum loan grantable by the rules is not approached in practice. The Minister of Agriculture in his report of 1887 expressly states that "for the small folk a mere Land credit institute is particularly ill suited."

It will be observed that the sole absent condition is that of 'proximity'; the banks are the cheapest and safest in the world; cheapest in their management, cheapest in their loans, most accommodating in their terms of repayment, privileged in their methods of recovery, but because they are not close down to the masses of would-be borrowers, they cannot help those masses.

Joint stock banks in general need no description; they attract deposits by virtue of their share capital and reserves, but in general may not issue land mortgage debentures without the express authorization of Government. But the Crédit Foncier of France needs special mention, since it is not only gigantic in its operations, but is a bank which, though of private foundation, owes its origin to a special law, is specially privileged, and is *quasi*-public in its management. The chief points to be noted are that its share capital is subscribed by shareholders, that its loanable capital is derived almost entirely from the issue of land mortgage debentures, that these debentures are privileged fiscally and legally; that a special method—a modified 'purge'—is granted to secure the bank against other unknown claims; that special facilities for recovery of its dues are also given; that the governor and sub-governor, as well as several of the directors are appointed by the State by which a strict supervision is maintained over the operations of the bank; there are also minor privileges. But this splendid institution which has at this time about £80,000,000 outstanding in land mortgages alone, has not during its 42 years of operation, so much as touched the peasantry proper, but only urban property and the larger and middle class of estates; very few small loans are given, probably none so low as £100 in rural tracts, and the smallest class is annually decreasing in number. The average size of the loans granted since its foundation in 1852 is £1,793; those granted in 1890 average £1,130. This failure to give small loans may be compared with that of the Egyptian Crédit Foncier, founded to assist landed property in Egypt where the fellahin require credit even more than their Indian confrères; this land bank has definitively decided, after some years experience, not to attempt loans below £300; up to 1891 it had granted 2,268 loans averaging £1,800, and in 1891 only 127 loans, each averaging £2,480.

Joint stock banks in general deal more largely with urban than with rural property, since it is far easier and more profitable to deal with insured house property at the doors of the bank than with landed estates of fluctuating and uninsurable value at a distance by paid agency.

All banks whether mutual or joint stock are under Government supervision; the officials of the Mutual banks are *quasi*-public servants; a State Commissioner watches over the management of the banks, including especially the issue of debentures. For further details, see appendix I.

The special Land banks need no description; they have no lessons for India, since they work for a special purpose, viz., the redemption of commuted feudal or other charges; the well known rent charge banks of Prussia are merely offices issuing debentures against sums which have been previously and laboriously determined by a special standing commission; the sums are fixed and determinate and are in no way matters of general credit with its fluctuating demands and values.

The Russian Peasants' Land bank established by Government in 1883 to enable the freed peasants to purchase their land outright, is a State bank of this latter class; its obligations are guaranteed by the State. It deals with the peasants not directly so much as through the corporate Mirs (communes) and thus avoids the insuperable difficulty of individual inquiries regarding loans which must not exceed 125 roubles each. In 1891 this bank had loans outstanding for 49,000,000 roubles, but it had already been obliged to attach properties for 6,000,000 roubles or $12\frac{1}{4}$ per cent. of the loans; in 1894 a Foreign office report

states that the bank is yearly narrowing its operations owing to the growing inability of the peasantry to fulfil the pecuniary obligations contracted by them towards the bank. The bank is hardly an example for India.

Continental Land Improvement banks are, with one exception, very recent creations; they are merely Land banks the operations of which are confined to loans for improvements, such as drainage, irrigation, plantations and the like. It is of course an absolute rule that these loans shall be repayable only by small instalments over a very long series of years. It is a noteworthy fact that in Germany, the original home of Land banks, these land Improvement banks (Landeskulturrentenbanken) are of the most recent foundation and of little present development; the German peasant does not yet demand much money for land improvement pure and simple; what he wants is money for general purposes; this point is obvious from the facts, and is expressly noted by Dr. Mayet in his proposals for Japan. The point is of importance in considering the needs and probable requirements of the Madras ryot.

The English Land improvement Societies work on similar lines, and are successful; the size of the loans given, owing to the landlord system of Great Britain the enterprise of the landlords, and the demands of the large tenant farmers, account for this.

The Building Societies of England and America are the Real credit institutions of the poorer classes. Owing to the landlord system of England, they deal very little in that country with mere landed property, but are the means by which artisans and other either obtain houses of their own through the society, or loans upon houses already in their possession. In America they serve the same purposes, but their ability to satisfy the demands of their members for loans for general purposes upon mortgages of real property and by advances upon their subscribed amounts, is shown by the fact that they are beginning to be called 'Co-operative banks,' as in the State law of Massachusetts. These are strictly Mutual or Co-operative societies, with no share capital proper, but only a capital derived from continuous (monthly) subscriptions, which mature periodically into shares of a given value; these shares are either modes of thrift and investment if the holders have not taken loans, or they are the means by which borrowing members repay, by the continuous periodical subscription, the loans which they have obtained upon mortgages. It is these banks which are now attaining in their aggregate, such vast importance in the above two countries; they are admirable as instruments of thrift, since the rules of the society compel regular and habitual subscriptions of fixed amount, whereas in the Savings banks the amount and period of in-payments are wholly optional; as credit societies, they are local, accessible, cheap in management—in many societies, especially in America, almost gratuitous—and most convenient in their terms and methods of repayment for the classes who mostly belong to them, viz., the artisans and small professional and trading classes. They are defective as regards agriculture, for they are mostly to be found in cities and towns, they are not organized for valuing landed property, and the rigid mode of repayment by frequent periodical payments, is not convenient to farmers. But there is nothing to prevent an adaptation of the system to the needs of agriculture.

These societies are the prototypes of the Madras Nidhis which have, however, developed through the needs of their clientéle into banks of more general credit, pawnbroking and advances upon bonds with sureties, being very general.

13. *Agricultural banks.*—These banks, solely intended to supply credit without mortgage to agriculturists, are rare as independent institutions and of no account. It is obvious that since 'Agricultural credit' as distinguished from 'Real credit,' deals with the continuous and fluctuating demands of the peasantry in the daily affairs of life, the loans which it connotes are petty, short term loans, very often of the nature of accounts current; it comprises the loans contemplated by the Indian Agriculturists' Loans Act, and an infinite additional class of petty credit transactions. Since, then, no State bank and no Central bank has yet found itself able to advance real credit loans to the peasantry in general, though such loans are comparatively large, well secured on tangible property and simple in operation, it is clear that *à fortiori*, no State bank and no Central bank has ever provided Agricultural credit. There is no such system, no such bank in existence, and those that have started or been proposed have absolutely failed. The great French

Society (Le Crédit Agricole) was a disastrous failure; the cause of its ruin was speculation in Egyptian and other bonds of which it held immense amounts, but this was merely the proximate cause. The real cause, viz., that which led to speculation, was that the society found itself unable to fulfil its intended function of supplying short term loans of small value to agriculture proper. In so far as it issued loans, it issued them chiefly to industries only remotely connected with agriculture, and in fact acted as a mere commercial bank by discounting bills. Its agents and intermediaries, moreover, proved unsuccessful, some being wanting in ability and judgment, some in business probity. The mere statement of the problem, viz., the supply by a single society of small, continuous, and fluctuating credit to many millions of agriculturists over the vast area of France, almost supplies its own answer.

The well known Belgian attempt by which the national savings bank deposits were to fructify agriculture through the agency of numerous agricultural offices (comptoirs) paid by a small commission, has absolutely failed.

The Italian attempt by a special law, as in Belgium, has been an equal failure,

The Agricultural Bank of Segovia (Spain) appears to be successful, but it is entirely local in its dealings and most honourably and skilfully managed; it is these qualities which make it a success: almost any bank will be successful if it proceeds on the lines of proximity, prudence, capacity, honesty.

14. *Monts de Piété.*—These are pawnbroking establishments, and are most useful adjuncts to credit but need no special description here.

The Monti Frumentarii of Italy and the Positos of Spain are ancient and remarkable institutions for the grant of 'takkâvi,' in the form once common in India as State advances for the immediate needs of the cultivation season, which are now supplied solely by the village money-lender. These are communal or local granaries, managed locally under the supervision of the district authorities, possessed of endowments chiefly in stocks of grain, and lending out these funds, as grain, to the peasantry, whether for seed or for maintenance. They have been successful for centuries and are still prominent features of rural economy, especially in Spain, where they are numbered by thousands. With the usual 19th century zeal for scientific, or supposed scientific improvement, it has been sought to convert them into agricultural banks, just as the Indian takkâvi has bifurcated and developed into the Land Improvement Loans and Agriculturists' Loans Acts. It does not appear that the attempt has been carried out, or that it would be an improvement; cash is more easily embezzled by petty communal officers than grain.

It is curious that these institutions have never had any counterpart in India. The proposals of members of the Famine Commission, to establish granaries as store-houses against famine, were absolutely novel, and so entirely against custom that the idea has never been seriously considered. Such granaries would serve admirably as Positos or, conversely, the Positos as relief granaries.

15. *Popular banks.*—These are of three great classes, viz., those following the system of Schulze-Delitzsch, of Luzzatti and of Raiffeisen. All are based on the grand common principle of mutuality or co-operation; they are not joint stock banks, but co-operative societies; the units of association are men, not shares.

16. *Schulze-Delitzsch Societies.*—The first class are the well known German 'Vorschussvereine;' these were principally started for the artisan, small trading and professional classes, and their clientèle is largely, though not solely, urban. The foundation principles are those of solidarity or unlimited liability, thrift, and the productivity of the loans granted; the area of operation is indeterminate, and the clientèle all who will subject a share, subject however to the decision of an entrance committee. Thrift is compulsory, the subscription to a share being a condition of membership; *without thrift no credit.* Funds are obtained chiefly by deposits attracted by the principle of solidarity; loans are granted chiefly on three months' bills, Schulze-Delitzsch believing that money withdrawable on short notice could only be lent on similarly short terms.

Beginning in 1850 with a single petty tentative society, established solely by the unwearied efforts of Schulze-Delitzsch, a man of very moderate means and position, but of unbounded zeal, energy and enthusiasm, this class is now numbered by thousands; these are grouped in various unions, and these again are linked to a central agency: each bank, however, is wholly autonomous and independent, the unions having only advisory and inspecting powers. A congress

meets annually, and there is a periodical devoted solely to the interests of the societies. Audit is provided within the societies by the usual committee of supervision, but by the law of 1889, special external audit is now compulsory, the unions of societies being generally expected to supply such audit.

These societies deal in the aggregate in millions sterling; the 1,076 societies which sent in their accounts in 1892 to the Central Union showed an own capital of £7,197,927 including a reserve of £1,473,702, deposits and barrowed funds of £21,951,159, and transactions in advances of £78,080,526 during 1891–92; they had 514,524 members, or 478 per society, of whom about three-tenths were agricultural. Their defect is in the shortness of their loans; even for the current needs of agriculturists three months is insufficient; with however the necessary prolongations of one or two further periods, current needs may be successfully supplied, but for all such purposes as the provision or replacement of stock, for improvements, plantations, buildings and the like, they are obviously unsuited. It is, however, perfectly possible to adopt these banks to all rural needs; loans of longer term can safely be granted even under the present system of deposits, and by adopting a system either of long term deposits or of debentures or both, loans of any term may readily be granted.

It is said that these banks frequently lose their mutual character, and become mere general banks, seeking high profits. In order to develop thrift Schulze-Delitzsch offered the attraction of profits as large as could be made; the societies have been very successful in earning profits, and the investing members, as distinguished from the barrowers, naturally look more to this function than to that of supplying cheap and safe credit. Moreover the Directors have been stimulated by substantial honoraria for their services, until this feature of the banks has become unduly prominent. A co-operative bank which looks chiefly to dividends and directors' salaries is only co-operative in name. A similar tendency is observable even in Madras, whenever societies admit dividends and directors' salaries as prominent attractions.

It is believed that loans are chiefly granted for productive purposes; that at least is a foundation principle, since Schulze-Delitzsch desired the material advancement of the people by the development of thrift and productivity.

Members can, of course, withdraw at will, with certain formalities and notice, taking their share values, but not a share of the reserve, with them; this is common to all co-operative societies.

Self-help is the motto of these societies which have neither received nor needed any help of any sort from Government, save only that of a law which was based upon their own experience.

17. *Luzzatti Popular Banks.*—The second class of popular banks is the Italian adaptation of the above. Luzzatti, then a young Professor of Political Economy and recently Minister of Finance, is the founder of this system which has firmly established itself within 30 years, the number of these banks being now (1894) about 900. In 1887 there were 641 banks, of which 541 reported their statistics, viz., members 318,979, of whom about one-third were agricultural, own capital and reserve £4,160,000, deposits, etc., £17,280,000, bills discounted, loans, etc., £57,000,000.

The Italian banks chiefly differ from their prototypes—(1) in rejecting the principle of unlimited liability, a share capital subscribed by members only, and a heavy reserve, serving as a guarantee; (2) in keeping dividends and honoraria as low as possible; Luzzatti in fact, considers that the great danger to co-operative banks is not that of failure, but of a success which leads members and directors towards the race for high profits and snug incomes, and he is consequently endeavouring, and with success, to obtain gratuitous or almost gratuitous administration. In this he is assisted partly by the newness of the banks, partly by the Italian habit of gratuitous public administration as seen in the matter of savings banks, Monti and other benefit societies. Loans are also granted for longer terms than in Germany, but the method is still by three months' bills, periodically renewed, since this method gives the bank considerable control over the utilization of the loans and over the borrowers' punctuality in repayment.

The sociéties have, of course, a newspaper organ of their own.

The popular banks, both of Germany and Italy, are able to reach the small folk and grant quite small loans; with the Raiffeisen societies they form what will

eventually be an almost complete banking organization for the smaller folk of the countries through which they are ramified.

18. *Raiffeisen Credit Unions and Wollemborg Casse Rurali.*—The Raiffeisen system, also adopted of late years into Italy, is entirely rural and co-operative. It is again of German origin, of the humblest beginning, and is due entirely to the philanthropic devotion and energy of a simple burgomeister (village head), 'Father' Raiffeisen. These societies are based on the following principles, which are considered absolute; (1) limitation of area, usually to a single village, so that the bank may know and be known of all; (2) unlimited liability; (3) reduction of the share capital—now compulsory by law—to the lowest possible minimum; this principle is expressly intended to arrest any tendency to the seeking after dividends; (4) absolute gratuitousness of administration, only the actual clerical work being paid for, and that on a most economical scale; (5) the utilization of the loans only for productive purposes, the word 'productive' being, of course, interpreted widely; as, for instance, for the maintenance of the farmer pending his crop, the paying off of usurious loans and the like; (6) a considerable duration of loans, extending ordinarily up to 10, and occasionally to 20 years; (7) repayment by instalments; (8) entire absence of increasing dividends, the shares, of an almost nominal amount, bearing only a moderate interest fixed by the articles, all other profits being credited to a reserve which is not the property of members save in their corporate capacity; hence it can only be spent in works of public utility.

These small and weak societies early found the advisability of grouping themselves for mutual advice and moral support; there are now several groups, and these again are linked to a central agency. There is also a Central bank for equalizing funds by lending the surplus of some to meet the needs of others. The loans granted by these societies go down to sums that would be considered small even in India where money is so much more valuable, showing that these societies are, as indeed their constitution and membership indicate, the banks of the small rural folk.

Raiffeisen desired the moral even more than the material development of the rural classes, and endeavoured, therefore, to eliminate the desire for profits, foreseeing that such a desire would infallibly lead to an opposition between borrowing and non-borrowing members, and to the loss of the guiding principle of brotherhood and mutual help, which was the central idea of his system.

His efforts were but slowly crowned with success; beginning in 1849 there were only four by 1868; since that time they have established their reputation and are now developing at the rate of several per day; in September 1893 the original Neuwied group itself completed the number of 1,000, and it is calculated that there are already several thousands in existence.

Their group organization is not so successfully carried out as is desirable, and statistics are very defective; it is stated, however, that not a single society has ever become bankrupt, while the vast increase in numbers amidst a poor and conservative clientèle, argues their extreme suitability to rural needs. In Italy the work of these societies has been very particularly described by their founder, Signor Wollemborg, and the results as depicted by himself and other reporters are encouraging and stimulative in the highest degree. Both in Germany and Italy these societies have their organ which is devoted to co-operative news.

19. *Savings banks.*—These, though not primarily organized as credit banks, are not only important adjuncts to credit, but themselves engage in credit operations for the investment of their funds. In Germany, Austria, Italy, Switzerland and the United States, the saving banks have, within the law, the free disposal of their funds; they are not State banks, but either private or *quasi*-public under the management of public bodies or institutions, and are allowed to place their funds in first-class securities, often expressly mentioned in the law, in first mortgages, in personal credit and the like. Their investments in mortgages amount to from 20 to 65 per cent. of the deposits, and as these are counted by hundreds of millions sterling, the part played by savings banks in both rural and urban credit is considerable. It is found that the banks are generally prudent in the disposal of their funds, and the supervision exercised over them by law through the State authorities, tends strongly to keep them within the limits of safe business.

Moreover they not only engage in credit directly, but indirectly in granting loans to popular banks. It is, indeed, in this way that Luzzatti considers they will serve a most important function, namely, in collecting funds in driblets from the masses and granting them in lump to those banks which are expressly organized for distribution.

20. *Agricultural Associations.*—These in themselves do not fall within the scope of this study, but in France, which has hitherto not succeeded in developing organized agricultural credit, they are beginning to play a notable part. France, always original, has struck out an entirely new line in developing credit annexes to these associations. Even here, as in Germany, the idea originated in the smallest of ways—at Poligny—where a small credit branch was attached to an association working under the law of 1884, only members of the association being admissible, and then only by selection, to the credit annex. Loans are only granted for the current needs of farmers, especially in the purchase of stock, manure, etc., but the method is capable of development. The loans are granted by the discount of bills executed by the borrower and backed by two other members; these bills, when endorsed by the society, are re-discounted by the local branch of the Bank of France, since the original signatures are known to be those of selected persons, both debtor and sureties, while the signature of the society gives the third signature required by the Bank of France. In this way the society is a mere intermediary, and, with very moderate funds of its own, does a very considerable credit business. Beginning in the smallest of ways with the gratuitous assistance of several leading men, the credit branch is now very successful, and is being elsewhere imitated.

The importance, indeed, of this society lies in the fact that its leading idea is the basis of the new French law of 1894 by which it is hoped to extend *le crédit agricole, i.e.*, credit to agriculture otherwise than on mortgage, to the peasantry in general. The new law is intended to favour the development of credit annexes by the twelve hundred agricultural associations which sprang up to fill an actual but wholly unknown need, immediately on the passing of the law of 1884; it appears that the credit associations will re-discount their bills with a central agricultural bank to be formed and subsidized for the purpose; in fact it is the old "Société Agricole" re-established but with intermediaries in the shape of mutual credit societies attached to existing agricultural associations, instead of being, as before, mere paid agents or brokers. The idea seems likely to develop successfully.

The above paragraphs briefly sketch the chief of the several classes of credit societies which exist in Europe and America for rural needs.*

21. Several points may be prominently noticed—

(1) It is not any particular class of banks that is found, but banks in general; central and provincial land banks for the large and medium holders, savings banks and building societies for the smaller folk; popular banks for current credit; savings banks for thrift and real credit, and for the assistance of popular banks; agricultural associations with credit annexes; land improvement banks and societies; loan associations for the small needs of the very poor, or for specific purposes, such as the purchase of cattle; Monts de Piété for the pledge of goods, and Positos for the supply of seed-grain and maintenance during the crop season.

(2) No State bank has been successful, even for land mortgages where, continuous credit—not merely the commutation of certain charges—is to be given to small folk; only such State banks as deal over petty areas with a petty population by means of the State's necessarily large executive staff whom it can employ *gratis*, have succeeded in small credit operations.

(3) No central or large bank has succeeded in giving credit, even on mortgage, to small folk; the expenses of inquiry and chances of loss are too great.

(4) Privileges and subventions have been useful for the establishment of great central banks, but have never enabled those banks to reach the small folk. Moreover privileges and subventions have been granted (*a*) because the banks were the result of authoritative fiat, (*b*) because the general law required

* For all details, see Appendix I. The above paragraphs are merely intended as an index.

modification on account of fiscal severity or of too rigid and exacting methods or required additions from the absence of the necessary provisions for the establishment of such banks, (*c*) because State supervision in one form or other was felt to be a necessity, and privileges and State interference connote one another. Hence it is that the establishment of central banks, whether the Landschaften of Germany, the Crédit Foncier of France, the Bodenkredit Anstalt of Austro-Hungary, the land banks of Italy, has been aided by special laws with special privileges.

(5) No privileges or subventions have been granted to the small local banks or credit societies of the people, nor have any special laws or modifications of the general law been passed *anterior* to their formation with the view of favouring or facilitating their introduction. Being absolutely local it is found that such banks can work successfully without any privileges.

But so soon as it was recognized that the societies, whether the popular banks of every class in continental Europe, the Building, Friendly, or co-operative societies of England and America, and the savings banks of the whole western world, were factors of inestimable value in the social and economic problem, special laws were passed for the furtherance and good management of such societies, or special provision was made in the general commercial codes of those countries; it was at once recognized that without the assistance of the law, and without public recognition and support, the nascent organization might fail both of its true extension and of its full development; great ideas had been born, but the infant systems required support and sustenance. In India, which has similar conceptions maturing for birth, it is necessary to assist the struggling organisms by favourable and simultaneous legislation.

(6) The banks, that have been successful in bringing credit to the smaller folk, are those local banks which have recognized personal thrift, self-control and effort as the conditions of credit; and those banks which have most thoroughly developed not only these cognate ideas, but have added the inestimable factor of mutual help and the power of mutual association, have been the co-operative banks by whatever name they may be called, which are the work of the members acting for, through, and upon the members. Mere credit, however, may be granted to such folk by any class of bank provided it satisfies the postulate of absolute proximity; such banks may be the joint stock or *quasi*-patnership banks of Switzerland, the co-operative banks of Germany, Austria and Italy, the Building societies, etc., of Great Britain and the United States, or the savings banks of Central Europe and of America.

(7) But it is a condition of their success that they should have grown; they cannot, for general and popular purposes, be established by the fiat of authority. Growth, however, may be fostered by authority which, as by the legislature, may not only insure favourable conditions, but may sow the seed of suggestive ideas, or, by the executive, may prompt and assist formation in a particular locality, or, in the persons of the prudent and intelligent, may initiate and guide the less advanced in the fruitful paths of association, thrift and self-help.

But it is noteworthy that the great popular movements in thrift, self and mutual help have invariably emanated from individuals and not from authority as usually understood; Schulze-Delitzsch laboured and the German popular banks came into being; Raiffeisen toiled through long years—at first with slow success,—till thousands of societies call him 'Father' Raiffeisen; Luzzatti and Wollemborg in Italy have equal claims as pioneers of the Italian movement; the savings banks and Building societies of Great Britain and the United States are the outcome of individual effort.

(8) The environment of the successful banks was not originally suited to the development of these banks; on the contrary, nothing would seem more unfavourable than the original *entourage* of the Raiffeisen and Wollemborg societies; the peasants of the Westerwald in 1850, and those of the Venetian villages in 1883 were cruelly exploited by usury; they were starving, ignorant, poor, and,—in Italy —largely a mere tenant class; nothing more unpromising could have been found as a field for banking enterprise. But by patient, plodding, individual labour the soil was tilled, the seed sown, the seedling nourished, till the grain of mustard seed has become a vigorous tree, of which no man can foresee the ultimate growth.

(9) No liquidation of debts is ever found necessary as a preliminary to the establishment of a bank; the bank accepts the security offered and pays off the prior debt with the loan or part of it, or it hands over the money to the borrower on production of the receipts of the original lender. Possibly, especially in the co-operative forms, the bank authorities act as arbitrators in compounding with the original creditor, but this is not mentioned as part of the bank's functions, even where the relief from prior debt is one of the distinct objects of the bank's existence.

THE MADRAS PRESIDENCY.

22. It remains to consider the position of the Madras Presidency, and the recommendations to be made for it.

23. *Preliminary.*—Before proceeding to discuss the conditions of, or make proposals for, this Presidency, it will be convenient to state, in advance, certain conclusions:

(1) Above 90 per cent. of the ryots of this Presidency correspond in status to the "small folk" of Europe, viz., those holding below 25 acres.

(2) The credit primarily needed by the ryots of this Presidency is continuous, small, loans for current needs, including maintenance, cultivation expenses, purchase of stock, payment of revenue, rent, and the like; secondarily, long term loans for permanent improvements. Whatever may be the necessity for additional capital for improvements, a more pressing and instant need is that for cheap and safe credit in current transactions.

(3) Most ryots borrow for such transactions at one time or other, while a large proportion live habitually in advance of their income, and pay dear for the habit; money is still naturally dear, while custom, descended from more unsettled times, monopoly, greed, and insurance against risks, enhance the price of credit.

(4) The private lender is, practically, the only source of credit in this Presidency outside of Madras. That lender is not, in general, the professional money-lender, usually known as a Marwari, Chetty or Sowcar, but the ryot. Nine loans out of ten—far more in hundreds of villages—are granted by ryots.

(5) Irrespective of the dearness of credit, much of which is directly due to this individual system, other considerations demand the organization of credit by the introduction of banking: banks are a necessity in a developing community. The question is, what forms of bank are most suitable to the community of small rural folk in this Presidency.

(6) Land banks are not suitable for supplying the current needs of ryots, and in Europe, where they have existed for many years, they cannot and do not even reach the small folk; they are, by the highest authorities, declared to be "pre-eminently ill-suited" [überhaupt wenig geeignet] by themselves to the needs of such folk.

(7) Agricultural banks, in the sense of banks expressly for agricultural credit, do not, in general, exist anywhere in the world, and most attempts to found such banks have failed; the Raiffeisen societies alone may be called Agricultural banks.

(8) The only banks that have reached the small folk of Europe, whether agricultural, industrial, trading, or professional, are the Popular banks, including in these the Schulze-Delitzsch, Raiffeisen, Luzzatti and Wollemborg societies, the small joint stock banks of Switzerland, the Building societies of England and the United States, and some others, including certain classes of savings banks.

(9) The common feature of all these institutions is *proximity;* whatever their differences in principle, method, and object, they have this condition in common. It is in fact a postulate of small rural credit that the bank shall be in immediate contact with its clients; *without proximity no credit.* If banks are established in proximity to the borrowers, facile credit is assured.

(10) But facile credit, even when granted by banks, is not a cure for rural indebtedness; it may be not even a palliative; it *may* in fact aggravate the difficulty. The history of small rural credit in Europe teaches that the nations with the most facile banking credit for the peasants are the most heavily indebted. The money-lender is not the real cause of indebtedness; he may increase its burden,

exacerbate and prolong its difficulties, but he is not the primary cause of it. Indebtedness, speaking generally, has a complex origin; it is due largely to national and personal characteristics, coupled with causes exterior to the individual, such as laws, social customs, modes of inheritance, seasonal difficulties, and the like. Hence it is a grave error to suppose that the problem of indebtedness can be solved by the mere substitution of a new distributing agency; to replace the money-lender by banks is not to replace indebtedness by solvency; on the contrary, unless the causes of indebtedness are removed, the load of debt may easily be increased by the facility and easy terms of borrowing; the specific gravity of the debt may be reduced, but the mass more than proportionately increased.

If the amiable opinion—based upon an enlightened perception of the needs of agriculture rather than upon fact—that the ryots thirst for cheap capital in order to pour it out upon the soil, were true, if in other words, land improvement banks were the *desiderium* of the ryot, if cheap capital were merely sought for actively productive outlay, banks of any sort that would bring cheap capital would satisfy the need, and the greater the indebtedness, the greater the productivity and prosperity of the borrowers. But it is not so; the Indian ryot is not more heedful or eager for agricultural development than his European confrère, and direct land and agricultural improvement is the last thing for which credit is sought in Europe. Hence in facile credit lies the danger of an increased mass of burdensome, unproductive indebtedness.

It is a mere dream to suppose that the peasants' difficulty will be solved as soon as cheap credit is introduced through banks; it is not removable by mere cheap credit or facile credit, but by the promotion, almost enforcement, of thrift, providence and heedfulness in borrowing; there should be alleviation of the terms, but limitation of the habit of borrowing.

(11) The main advantages of a bank over a money-lender are not that it will, in itself, eliminate indebtedness, but that (1) it encourages thrift and productivity by the gathering in of large and small savings otherwise idle; (2) that its principles are fixed, its methods public, and the results of borrowing from it calculable; (3) that it will, ordinarily, lend on such terms that, when distress comes, as it must frequently come, to small farmers, they can borrow from it with the hope of extrication at no great interval, whereas with the money-lender, there is little hope, so that debt means continuous debt. While, then, the idea that the establishment of agricultural banks is to prove a panacea for indebtedness is a delusion, it is perfectly true that they are essential factors in national progress; it is, however, equally true that the amount and character of indebtedness and the results to national character, depend very largely upon the foundation principles and methods of the banks.

(12) Credit, to be safe and sanative, must be preceded by thrift; not merely in the sense that the capital to be lent must first be saved, but that it is the man who saves, who is the man that ought to get and can use credit. One great cause of individual unthrift is the absence of facilities for thrift, of places for the due and productive custody of savings; if these are provided at each man's door, saving will take the place of expenditure, productive deposit that of idle hoarding. Hence the village savings bank is the primary desideratum of Indian rural banking, and every effort must be made to place facilities for saving in every village.

(13) But savings-banks must invest their funds, and the second function of banks is therefore credit. In England and India only one class of savings banks proper is found, viz., those which, whether Trustee or Government, invest their funds solely with Government. But the savings banks of Germany, Italy, Austria and the United States have the power of almost free investment of their funds, and consequently lend money on mortgages and in other ways, as far as possible *in situ*. Still, savings banks are not credit banks proper, and, however near to the people, are especially ill-suited to grant continuous petty credit for current needs. Hence they do not fill the rôle of rural credit banks.

(14) But there are classes of banks which fulfil at once the requirements of thrift and credit, while promoting in a high degree those qualities which are essential to high national character. These are the village banks commonly known as popular banks or credit unions; they are not formed by capitalists seeking investments for their funds with the hope of earning dividends thereon,

and therefore widening business regardless of the results to the borrower, but are small groups of men, all of the same neighbourhood, who unite their savings, attract capital by their thrift and prudence, and lend the proceeds to themselves on equitable terms for productive use. The leading principles are thrift, self and mutual help; the thrifty, prudent and thoughtful unite with the less careful and heedful, and by the influence of association induce in them ideas and habits of thrift and heedfulness; money is carefully saved and still more carefully spent; the bank is an association of *men* each influencing the other in the direction of prudence and productivity, so that the bank satisfies not merely the postulates of proximity and facility, but, pre-eminently, that of safety.

(15) Hence the central recommendation of this report is not the mere establishment of credit banks, as though banking credit, as opposed to that of the money-lender, were, *per se*, a relief from and preventive of indebtedness; it recommends rather the promotion by every possible means of facilities for rural thrift and providence in the establishment and in the encouragement of village banks of the co-operative type, similar to those known in Europe and America as Popular banks, Credit unions, Building societies or Co-operative banks.

(16) Such banks are not contemplated by the existing law, although they require special consideration and treatment in the matters of promotion and encouragement, management, finance, and supervision. Hence it is necessary to devise and pass a new law expressly directed towards the development and guidance of such banks, and, further, to grant such executive privileges as will stimulate their formation and strengthen their position.

(17) It is believed that such banks will be capable of granting every sort of credit that may be required; if their funds are small, so are their loans and their clientèle; all short term loans, that is, those repayable within three or five years, can readily be granted by them, as is proved by the Raiffeisen Societies of Europe and the Nidhis of this Presidency, and the securities accepted may be land, movables or persons. Long term loans for improvements may, even if of comparatively large size, *e.g.*, Rs. 500, be financed by the issue of debentures, to which Government may properly subscribe, since land improvements are already the object of direct State loans; the banks will thus serve as intermediaries for the relief of Government from burdensome individual enquiries, while the security for the loans will be not merely each separate mortgage, but the mass of mortgages, coupled with the bank's own credit. But the main work of the village banks for many years will be the provision of short term credit, facile in attainment, equitable in conditions, safe and sanative in methods, beneficial and restrictive in influence.

24. *Present position of the Presidency in the matter of credit.*—This may be summarized as follows; it is almost entirely under the *régime* of the private money-lender, and has no mofussil banking organization. Certain Madras banks have lent money upon considerable estates, but a few large loans do not constitute an organization. There are no mofussil banks for general trade and commerce, except, perhaps, one in Coimbatore; there are no land mortgage banks or ordinary joint stock banks; no savings banks, except those of the post office, which are of little use to the people generally, while they possess the radical disadvantage from the point of view of a productive credit, of drawing away all savings to the treasury; no agricultural associations, and with certain exceptions no popular banks. Almost everything has yet to be done; the field, with one exception, is perfectly clear for the statesman, legislator, reformer, and philanthropist; Madras awaits its Schulze-Delitzsch and its Raiffeisen, its Luzzatti and its Wollemborg.

There is, however, a very promising exception; the Madras Presidency stands alone in India in possessing in its Nidhis a development through the methods of the English Building Societies, of an indigenous and almost universal village Fund system; favourable legislation and stimulation by the executive may develop these beginnings into a system of popular banks which shall solve the question of rural credit, shall promote national thrift, prudence and self-control, arouse new ideas in the general population of self and mutual help, remove the isolation, the suspicious exclusiveness of the agriculturist by the benefits of association, and suggest new departures in his hitherto conservative methods of cultivation.

25. *Credit systems.*—In this Presidency the chief lender is the ryot, as he is also the chief borrower. Taking the Presidency as a whole, just two-thirds of all

mortgage loans are granted by ryot lenders, and a slightly larger proportion of loans on ordinary registered bonds. The percentage differs greatly, however, in different districts; in Tinnevelly 84 per cent. of the mortgages are lent by ryots; in Anantapur only 35 per cent. These figures are for registered loans only (83,000 tabulated cases); the percentage is, probably, much higher for the mass of petty loans which make up the real indebtedness of the country; in many districts, *e.g.*, Anantapur, practically all village grain-loans are due to ryot lenders, as also a large proportion of the small cash loans; in districts where even mortgage loans are granted by ryots chiefly, it is certain, *á fortiori*, that small current credit outside of the towns is mainly granted by them. This point is of the highest importance not only as an economic fact, but in considering the future of village banks.

The mortgage loan is much resorted to, nearly 400,000 being now annually registered: of these, half are above, and half below Rs. 100: nearly one-third are "with possession," and average something over five years in term; above two-thirds are "simple," and average between two and three years in period; the annual value will be about 7 crores, and the aggregate existing value in any one year, about 21 crores.

An unknown and not calculable amount is annually lent in small cash loans; these are not necessarily shorter in term than mortgage loans which they frequently precede: they are often of the nature of standing debts on running accounts, money being occasionally borrowed, and instalments occasionally paid up. From certain statistics it is probable that not less than 10 crores, and probably a good deal more, are due on these loans.

A large mass of village credit is granted in grain: in many villages the bulk of the small ryots anticipate their crops, borrowing grain for seed and maintenance in the cultivation season, and repaying the advance out of the crop at harvest. It is impossible to calculate the mass of debt in this form. The indebtedness under this head and much of that under the first and second heads is not necessarily embarrassment or debt in the sense of living beyond income; it is an anticipation of income, which is, however, objectionable as a habit, and liable to prove an embarrassment if the terms of borrowing are inequitable.

The rates of interest are high, but, speaking generally, though embarrassing are not ruinous. Of the mortgage loans above Rs. 100, 65 per cent. pay 12 per cent. or less; 42 per cent. of those below Rs. 100 pay the same interest. In Tinnevelly, where the chief lenders are the ryots, only 60 per cent. of the mortgages above Rs. 100, and 35 per cent. of those below Rs. 100, pay 12 per cent. and less, while in Anantapur, where two-thirds of the lenders on mortgage are non-ryots, the percentage of loans, paying the same interest, is somewhat higher than in Tinnevelly; in Cuddapah, where only half the lenders are ryots, the proportion of loans paying not above 12 per cent. is much above the Presidency average. The general bulk of mortgage loans pays between 9 and 18 per cent. per annum.

There is no great difference between the general rates payable on mortgages and those on ordinary loans; the tabulated results of above 3,000 suits below Rs. 50 show this conclusively.

For grain loans the universal rule, when the loan is between ryot and ryot, is an addition of 25 per cent. to the amount borrowed. But when the advance is made by a merchant, broker or other middleman, the rate may be anything, especially when repayment is made or calculated in rupees.

The purposes of the loans are very various, but, very generally, are for maintenance and cultivation expenses; mortgages are usually incurred, except perhaps in Tinnevelly, on a settlement of a running account or to pay off some other creditor; only 1·3 per cent. even of the registered mortgages are for land improvements.

Loans, generally, are very small, even minute; half the mortgage loans, viz., those below Rs. 100, average only Rs. 44 apiece, and 15 per cent. of those below Rs. 100 are for sums not exceeding Rs. 25; in the villages, a score or two of people will owe in cash loans an aggregate of only a few hundred rupees, while the grain loans, which probably form by far the most numerous class, seldom exceed Rs. 20 or 30 in value during the season. Every year above 50,000 suits below Rs. 20 in value are disposed of in the village courts, besides an immense number by village arbitration; above 60 per cent. of all suits in this Presidency do not exceed Rs. 20 in value. Nearly all rural loans are below Rs. 50, an immense

number below Rs. 20: only a moderate number exceed Rs. 50, and these have frequently begun as small loans; comparatively few exceed Rs. 500.

It is usually considered that loans between ryots are less objectionable than those between the professional and his client: on the whole this seems true; interest may not be less, and the ryot-lender may be even keener than the professional in his desire to obtain local influence and wider lands, but, *per contra*, his loans are frequently friendly and purely helpful, while it is better for land to pass, if necessary, from a borrower to another ryot of the village rather than to an outside professional.

The methods and profits of middlemen and brokers are well known, and have been often described; it is probably in these transactions that the ryot is most seriously fleeced, and that he can be most profitably aided; village banks or associations may advance money or grain, and thus obviate the need for advances from the broker, or they may receive the produce of their members and place it at advantageous terms upon the market. The provision of numerous weekly markets is also a most important means of assistance, for the ryot very soon learns both the true market rates, and the value to him of the competition of the market for his produce.

Shopkeepers also lend; not merely do they sell on credit, but they advance against a promise of so much of the crop at harvest time; frequently the object of the loan is to obtain the crops of the borrower, either for retail sale, or for the external market through merchants for whom the shopkeepers are mere agents or brokers. The interest in these cases is probably only part of the burden, since the sole accounts are in the lender's own books.

In the south mortgages are far more frequent than in the north of the Presidency, probably because the land generally is far more valuable. It is curious that in Tinnevelly, and elsewhere to some extent, the terms of mortgage loans are of the shortest, very many being below six months and the larger number below one year in duration. Considering the expenses of documents, witnesses, stamps and registration, this is very remarkable, and would seem unnecessary, considering the great value of much of the land and the consequent general *status* of the borrower, which should promote personal credit.

In the Ceded Districts and probably elsewhere, the purchase of good cattle is effected on the instalment system; young cattle are sold at high credit prices, the purchaser taking all risks. The price paid and the chance of loss make this interest very costly to the borrower.

It is easy to exaggerate and easy to minimize the results of the above systems. In judging of the terms of a loan it is often forgotten that the security is often *nil* or almost worthless, so that the insurance element is heavy; a servant or a poor labourer must pay extremely high if he wishes to borrow. A small original loan charged at high interest for want of security, and unpaid at maturity, rapidly doubles and decuples in amount, especially since the security decreases in proportion as the loan amount reduplicates itself. A few such cases as known to most inquiries, especially to Europeans whose servants or dependants,—very often poor Native Christians,—are persons of the poorest classes, may easily lead to the idea that all private money-lending is extortionate and iniquitous, whereas it is certain, from the results of myriads of tabulated cases, that interest is fairly moderate where the security is good.

On the other hand, the money-lender, though useful and even essential, at present, in rural economy, is not merely the beneficent friend he is sometimes depicted; he is essential because a ryot must have credit, but he is expensive because he trades chiefly with his own or perhaps a borrowed capital, and cannot draw upon the general savings of the public. Apart from the unfortunate element of greed, which, however, must be taken count of as practically universal, especially where opportunity is favourable to its development, he is naturally anxious to get the very most he can for his loans, and in an immense number of cases undoubtedly uses his power from a position of undue advantage and exacts most exorbitant sums; custom and monopoly are also important items in the current price of credit.

Assuming the aggregate value of all existing rural mortgages as 20 crores, of existing cash debts as 15 crores, and of grain debts as 10 crores, the total debt

of the rural population at the beginning of harvest will be about 45 crores in an ordinary year. This means an average indebtedness of about Rs. 13 per head of the rural population. This is heavy, but in no way overwhelming; the total aggregates about three-fourths of the annual rural produce taken as 60 crores. If it be multiplied by five to compensate for the difference in money value, and if the product—225 crores—be supposed equal to £225,000,000 sterling which is not the case, the amount of debt compares favourably with that owed by the rural populations of continental Europe.

But the rate of interest and the consequent burden on the people, are excessive. Taking mortgages, cash debts, and grain debts together, the general rate of interest cannot be below 15 per cent.; on 45 crores this means $6\frac{3}{4}$ crores, to which must be added another one or two crores for incidental expenses, stamps, registration, costs in suits, and the like. Probably 8 crores is the *lowest* annual burden to the rural population on account of its borrowings; while, if 18 per cent. be taken as the average interest, the total annual burden will, all charges included, approximate to 10 crores; the mean of 9 crores represents 15 per cent. of the gross annual rural produce taken as 60 crores. What is wanted is (1) to cheapen the terms of credit so that the mass of debt may weigh less heavily on the borrowers; (2) to render credit safe both to borrower and lender; (3) to organize credit in such a way that while safe and beneficial in its conditions, its use may be restricted to cases of necessity and of productivity, using these words in a liberal sense.

26. *The clientèle.*—It has been shown above that in France and Germany 85 and 87 per cent. of the landholders possess or cultivate only 25 and 28 per cent. of the land in farms below 25 acres; there is, therefore, a numerous body of rich landholders whose status, politically and socially, is wholly different from that of the small folk; but in Madras matters are very different. In the first place 94 per cent. of the ryots hold land in farms for which they pay below Rs. 50 as assessment; as the average of fully assessed land pays about Rs. 2 per acre, wet and dry together, this represents 25 acres; when a ryot holds only dry or poor land the area is increased but not the productive capacity or value of his farm. This class then corresponds with the small folk of Europe. But this 94 per cent. holds not 30 or 35 per cent. of the land as would be the case in Europe but 60 per cent.; hence the average size of these small farms is considerably above that of the average holding of the European small folk, a fact due to the immense number of very small holdings—below $2\frac{1}{2}$ acres—in Europe. While however the general individual average is large, the greater number of the holders and the larger area held by them, diminishes the possibility of a mass of large landholders. In fact the 148,783 landholders holding above 25 acres form less than 6 per cent. of the total, holding 40 per cent. of the area, while those holding above 125 are only 8,869 in number, form only 0·3 per cent. of the whole, and hold 9 per cent. of the area. It follows, then, that there is comparatively speaking, no great difference in level between the great masses of the landholders of this Presidency, and that the larger holders are neither very numerous nor do they hold individually very large areas.

But secondly, even though there is a certain number of large and medium holders, there is no sharp distinction as in Europe between the several classes; they hold different areas, but their methods, habits, capacity, intelligence and education are not, in general, very dissimilar; all that can be said is that one class has larger lands and greater expenses than the other. There is no aristocratic or wealthy class which would form, as in Europe, the clientèle of Land banks proper.

Generally speaking then, the mass of the ryots of this Presidency, while enjoying a larger individual area than their confréres in Europe, are unlikely to provide a clientèle for central banks, but will, in their capacity as borrówers, come within the sphere though not under the actual designation of small folk. In other words, the credit to be provided for the vast majority of agricultural borrowers in this Presidency must be that provided by the small local societies of Europe. Similarly, the industrial, trading and professional classes, are, in the mofussil, of a generally low level; petty capital for petty trade and petty industries is, in general, the demand, as indeed is shown, both for ryots and others, by the petty size of the loans both mortgage and simple.

27. *Class of banks.**—Hence, for the several classes of rural borrowers, it is not Land banks or great institutions that are required, but small local societies corresponding to the popular banks and credit societies of Germany, Austria and Italy and to the Building societies of England and the United States; small societies giving small credit to small folk are the desideratum for this Presidency. It will be well to lay down as an axiom that for this Presidency the general class of credit required is that which may be supplied by 'Village Banks,' using this term to mean those banks which are capable of development in and should be limited to operations over small towns, single villages, or small groups of villages, such as the 'Unions' of the Local Boards Act. These banks may, as in Switzerland, be joint stock banks with a very small share capital; they may be popular banks or credit societies as in Germany, Austria and Italy; they may be Nidhis more or less modified from their existing methods to suit wider needs; they may be co-operative or Agricultural Associations to supply cattle, stock, implements, seed, manure, food, etc., of good quality and at cost price, with perhaps a credit annex, and a savings branch; they may be Savings banks, enjoying, as in Germany, Italy and the United States, the free disposal of their funds within certain limits laid down by the law: they may be Positos or village granaries, storing the surplus grain of the village, and lending it out for maintenance and seed during the cultivation season, as in Spain and Italy. Every one of these institutions is desirable, and every one may assume the form of a purely local village bank. Of all these classes of banks those established on co-operative and possibly communal principles, are most strongly recommended, in that they promote not merely cheap and the facile but safe credit, that they admit of grouping the banks into unions for support and mutual assistance, that they develop thrift, temperance and foresight beyond all other forms of bank, that they are consonant with the ideas of village life and associated village effort, that they tend to prevent the too rapid or complete disintegration of the village into individual units, that they develop joint action in matters even more essential than credit, that they tend to substitute helpful co-operation for the struggle of competition, and that they teach unselfishness, mutual assistance, and self-help as principles of life in a way that no other credit societies can accomplish.

28. *Nidhis.*—These are a first attempt to deal with the problem. They were started in Madras town by Hindu officials about 1850—just when Schulze-Delitzsch and Raiffeisen were beginning their grandly successful experiments in Germany—with the object of relieving a few friends from the ruinous terms of the usurer. A very ancient and universal system of periodically pooling small sums and balloting the pool, exists throughout the Presidency; perhaps 50 people will subscribe monthly one rupee each, the pool being handed to each subscriber in turn according to the fall of the lot; in this way saving is promoted and every one in turn obtains the use of a considerable sum. This crude system is the result of the absence of savings and other banks. One step further developed this rudimentary system into the more advanced method of the English Building Societies, in which the members subscribe monthly a fixed sum per share, and receive the amount of their shares at the close of a given period; the accumulations each week or other period are lent to borrowing members by ballot or other method, the loans being secured by mortgages upon house or other real property, and repaid by the usual periodical subscription. In Madras this system was adopted, but there were added rules for pawnbroking and personal credit. Their similarity to, and probable development from the 'chit' fund system, is seen by the fact that some so-called Nidhis are neither more nor less than 'chit' funds, though posing as loan companies, 'limited,' under the Companies Act.

The Nidhis rapidly developed in Madras town; one of the best of these societies has now about 3,000 members with about 17,000 shares. Subsequently they extended to the mofussil, and an immense number sprang up in the decade ending 1890 and perished as quickly as they arose; they were started both ignorantly and fraudulently; men without the slightest knowledge of business or even of commercial arithmetic, and men bent only on duping the public, opened these

* *See* chapter on 'Recommendations' in Appendix I.

funds, attracted public money by impossible promises, and lent the subscriptions carelessly or fraudulently, with the natural result of bankruptcy. Without a proper law, without proper rules of business, without the slightest supervision, nothing else could be expected, and the result has been a great loss of public confidence in the localities where these losses or frauds occurred.

There are now about 140 of these Nidhis, most of them well established; in large towns such as Bellary and Trichinopoly, there will be a considerable number; in smaller towns or large villages perhaps one or two. At present their *clientèle* is chiefly official, professional and commercial; only slightly agricultural; their rules, which require regular monthly subscriptions, are not very suitable for agriculturists or for agricultural loans, while it is natural that the first development should be urban and amongst the more educated and enterprising classes.

The Nidhis grant (1) simple loans, *i.e.*, mere advances of actually paid up subscriptions, (2) regular loans, *i.e.*, loans upon mortgage of real property, jewellery and other securities, and upon personal security, repayable by the regular monthly subscriptions; (3) temporary loans, that is loans upon any of the above classes of security, but repayable in lump in three or six months; (4) small lot loans, that is sums of Rs. 5 or 10 also repayable at short dates. Some societies, especially in the Madras Town, lend mostly upon mortgage; others, as in some mofussil Nidhis, mainly upon personal security; the growth of this latter method in the mofussil is a most promising fact.

The method of repayment by periodical subscription is worth mentioning; the Fund even when 'Permanent,' divides its shares into series, each of which matures after a fixed number of months, *e g.*, 45 or 84; the monthly subscription is usually one rupee; the aggregate, viz., 45 or 84 rupees with accumulated profits, amounts exactly to Rs. 50 or 100 at the end of the term. Hence a non-borrower obtains Rs. 50 or 100 for each share at maturity. If, however, he has borrowed a sum equal perhaps to the matured value of his shares, he repays his loan not in lump, but by regular, periodical subscription, so that at the maturity of his shares he has paid up and is credited with their full value which exactly balances his debt. This method provides a safe and easy mode of borrowing and repaying debts, the borrower insensibly reducing his debt by a comparatively long series of petty payments. A very slight development, *e.g.*, by making the terms longer, and by requiring only three or four instalments per annum (see Nidhi A, Agricultural Branch, *s.v.* 'Madras Nidhis'), would make the loans suitable for all classes of agricultural needs.

These Nidhis are already doing good work, especially considering that their introduction and their development in the mofussil have been absolutely unassisted by the legislature, by the countenance of the executive, or by public notice of any description. They are about 140 in number, have about 35,000 members, and lend annually above 20 lakhs of rupees, mostly however to townspeople on urban property and for needs apart from those of agriculture; petty trade is, in some towns, much benefited by them.

Some Nidhis are, however, indistinguishable in their terms from ordinary sowcars; in 100 recent suits taken in consecutive order from the file of a District Munsiff's Court in a Mofussil town, 35 had been filed by Funds, and in these the original interest ranged in 21 cases from 30 to 42 per cent., the rates of money-lenders in the same list of suits, being similar in average, but in a few cases higher. It is evident that Funds which lend on such terms are not the banks which should replace the private money-lender; they are instances in India of the experience of Luzzatti in Italy and of Schulze-Delitzsch in Germany that Popular banks which do not rigidly adhere to the co-operative principle and to *fixed* dividends, are rapidly seduced by the greed for dividends and profits till they become mere usury shops albeit with high sounding co-operative titles and articles to match. It should be added, however, that the size of the loans shows that they were "small lot" loans usually lent to non-members—this merely proves that the Funds indulge in risky business for the sake of high interest.

Their constitutional defects are (1) the fact that they operate almost entirely with their subscribed and paid in capital; (2) their inability to attract deposits, since there is no sufficient security for them and a difficulty in repaying them; this largely reduces their importance as Credit societies; (3) their inability to give loans

at any time to any amount; only a member who happens to win the ballot or to be first on the register, can get loans, these being limited to the amount of the subscriptions for the month; (4) their inability to give loans of very long term; (5) the necessity for repayment by regular monthly instalments, a plan not suited to agricultural incomes; (6) the tendency of the societies, which in their origin and idea are co-operative, to become mere joint stock institutions, in which the interest of members as users of credit, is made subservient to that of investors in the race for dividends, and of directors as the holders of offices more and more highly paid as profits are forced up.

Defects in practice are generally due to negligence, slackness in carrying out the rules which are usually fairly good; audit by competent men, thorough business management by the directors, due attention and supervision by the shareholders, are often seriously lacking. There is absolutely no law properly applicable to these societies, which are necessarily variable in capital, and with shares either non-transferable or restrictedly so, while the Companies' Act contemplates companies with fixed capital only, and with transferable shares. Nor is there the slightest legislative assistance to such societies in the matter of restriction and guidance of their operations, as in England and the United States, nor is any help granted in the way of that supervision and advice which is provided by the most recent legislation in the same countries. Nor are any other privileges granted as in other laws, such as fiscal in the laws of England and the United States, legal as in the way of ready recovery of debts, in the provision of a degree of priority when the funds of the society are held by deceased trustees or a bank in liquidation, in the grant of exemption from court attachment for debt of a certain amount of deposits in or subcriptions to the society as in the United States, and in the provision of testamentary facilities in the matter of succession, as in the Provident Nominations and Small Intestacies Act, applicable to these and other societies in England.

It is absolutely necessary if these societies are to become the sources of organized general credit to the small folk in general and to the agriculturists in particular, that there should be a law dealing expressly with these and similar societies, and favouring their institution, management and development.

Probably the one change essentially necessary is that which would enable the Nidhis to attract deposits, or outside capital as by debentures. For this purpose it would suffice for any society to provide by its articles that its subscribed capital should not be used as working capital, but solely as guarantee capital, and should accordingly be invested, as it was paid up, in Government paper in the name of a State commissioner; so also its general reserve. With this guarantee a society might be permitted to issue land mortgage debentures or to receive deposits as provided in the draft bill. As the societies are at present constituted there is no material guarantee for deposits or other extraneous capital.

29. *Promotion of banks.*—Finally, then, it is to be considered in what way the establishment of institutions of organized credit can be promoted.

30. *State banks.*—The establishment of State banks is out of the question; it is impossible and would, if possible, be inadvisable. *Impossible* since, under the postulates of credit—proximity, security of the lender, facility and safety to the barrower—there must be a bank in every village, or minor group of villages; such a ramification would demand an establishment and find work equal to that of the existing Land Revenue department; it is far more difficult for a great central agency to lend annually to millions of people, with the hundred inquiries necessary on each occasion, and on the fluctuating security available, than to deal with ordinary land revenue duties. No such organization has anywhere except in India been even dreamed of; not even in France with her centralizing tendencies. Nor, indeed, has the State funds for general dealing in ordinary credit. *Inadvisable,* for if possible, it would render the whole population dependent upon the State; it would enormously develop bureaucratic interference in the everyday affairs of life; it would be an unheard of experiment in State socialism, and would absolutely confirm the already overwhelming tendency of this country to look to the State not only in all emergencies but in the ordinary affairs of life, to consider it as answerable for or bound to relieve its misfortunes and to accept the burden of all its debts and poverty; it would develop, in a high degree, the habit of attempting to

over-reach and defraud that entity vaguely known as 'Government' which is usually credited with unlimited means and with the ability to overlook individual debts; it would add the odium of the bailiff to that of the tax-collector—*odio vectigali odium fenebre*—; it would choke all private enterprise and, still worse, the development of those habits of providence, thrift, self and mutual help which are among the highest qualities of a nation.

31. *Functions of the State.*—But the State must assist the development of organized credit. The functions of the State in the matter of rural credit are considerable; it must remove all disabilities and obstacles which prevent lender and borrower from meeting on fairly equal terms; it must stimulate competition with the money-lender by suggesting and favouring the establishment of credit associations of various classes; it must legislate for the due formation and management of such associations, with a special leaning to co-operative associations as stimulative of essential national qualities; it should grant certain privileges, which cannot be safely entrusted to private individuals; it should provide for efficient supervision; and it may grant some moderate loans either as working or as mere starting funds.

The State cannot do much by direct means to place lenders and borrowers on equal terms; education is a chief means, but one of very slow growth. A usury law is generally a mistake, but the modern German form, though perhaps too drastic in its penalties, is a great advance upon those ancient laws which lay down an arbitrary rate for interest, as to this day in the United States. The German law gives the courts discretion to decide in each particular case whether there has or has not been usury, the circumstances of each contract being considered, and especially any undue advantage which the lender may have enjoyed. A usury law on similar lines may be wholly though temporarily useful. Similarly it is advisable to insist that all persons habitually dealing in credit as a business, shall keep a fixed set of accounts entered clearly and distinctly in proper books; the lack of such registers is daily felt.

The real method, however, of bridling the money-lender is by stimulating competition with him; in Switzerland thirty years ago the complaints against the usurer were as elsewhere; banks sprang up in obedience to the demand and in consonance with favourable laws of mortgage, registration and other stimulating circumstances; the result now is that the money-lender is authoritatively declared to be of no account as a factor in general credit, there being about 900 credit banks of various classes to less than 3,000,000 people. If it is found possible in Madras to promote new classes of banks and to foster and develop the existing system of Nidhis, the difficulty of credit, so far as it arises from the monopoly and imperfections of the private money-lending system, will disappear.

While it is desirable to develop the suggestive and educative functions of the law and of the executive in the matter of thrift and credit institutions, and to give, by law, certain privileges to societies established to promote national thrift, providence, and productivity, it is to be remembered that neither the existing law, nor the Government, nor the state of society, offers any actual obstacles to the establishment of any class of bank or benefit association; if the law does not suggest it does not prevent; if the executive does not help neither does it hinder; if the conditions of society are not all that can be desired neither are they specially unfavourable. Compared, in fact, with the conditions of Europe, especially in the middle of the century when banks for the people first arose, the conditions of this Presidency must be regarded as distinctly favourable. The right of association for any purpose, political, social, or economic, is absolutely free; fiscal burdens are light; communications, by rail, post and telegraph, are good; justice is accessible, pure, and fairly prompt, while, in the village courts, this Presidency has at hand an unequalled instrument for the enforcement of small claims and contracts; education, though popularly backward, has produced a large class of men who are or may become fully acquainted with Western ideas and methods, while sufficiently in touch with the people to be able to carry those ideas into effect: the ryots themselves are generally shrewd, while the village leaders are accustomed to combined effort and system, as in the difficult task of water distribution from great tanks, compared with which the labour and organization required for managing petty

thrift and credit societies, are but small. The success of the Nidhis, even in villages, proves that there is absolutely no necessary hindrance to the successful working of association either in the law or in the conditions of society, although it is most desirable in the interests of further action, that certain positive improvements shall be introduced and privileges granted. What is really wanted is the advent of men of zeal, enthusiasm, devotion and perseverance who will take up the Western ideas and methods, and, by personal labour, solve the difficulties of the problem not on paper but in actual practice; the philanthropic reformers of the East must sit down in the villages as did their prototypes of the West, and must there establish the petty societies which, as in Europe, shall contain the germ and promise of infinite potentialities. There can be no higher honour for any man than to achieve the rôle of the Schulze-Delitzsch or the Raiffeisen of India, and the possibility of filling that rôle is within the power of hundreds of men in this Presidency.

32. *Legislation.*—There is room in the Presidency for the development of many classes of banks: it is not merely the introduction of land banks, or popular banks of a Western type, or savings banks, or even the development of the system of Nidhis, that is needed: all classes of banks, joint-stock, co-operative, savings, land improvement and the like, are called for. But the present Company law contemplates only joint stock trading companies; hence legislation is required to favour the introduction of new classes. The present Company law is defective exactly because it is the law of commercial joint stock companies only; it is adopted from the English Company law alone, and takes no thought for the numerous other kinds of societies for which England and the rest of the world provide special laws with special privileges and conditions. One, and a very important ill result of this defective law, is the turning of society methods and ideas into a mere trading groove; the ideas and management of the directors and share-holders are based upon pecuniary profit through dividends and honoraria, whereas that side of society administration should at least be equally presented which is based upon co-operative ideas and methods. In fact, if the lessons of the several studies presented in Appendix I are correct, it is the co-operative classes of banks which, above all, are desirable for rural conditions, for it is they which teach prudence, thrift, temperance, the productive use of capital, unselfishness and mutual help, above all other forms of banking organization.

The law,* then, must provide for each class of banking society as noted above, since the provisions, privileges, subventions suitable to the one are not necessarily suited to the others. It is needful, however, to insure for all societies that their promotion and formation shall be *bonâ fide* and that they shall not be bogus companies started by a swindler or group of swindlers for their own benefit, or even by ignorant well-meaning men without the slightest knowledge or business capacity. Their articles must be subject to such scrutiny as shall ensure their being legal and equitable; the word 'limited' may be so developed as to permit of a liability equal to a multiple of the share value or to an additional fraction: societies with variable capital and non-transferable shares must be legalized. Reserves must be made compulsory, a minimum being prescribed in terms of a proportion of the capital or deposits, the funds being obtained from a definite proportion of the profits and such other sources as the articles may permit, and invested only in particular classes of securities.

It is necessary to define more particularly the duties and responsibilities of directors, to insist upon their having an inalienable stake in the welfare of the business, and to restrict their powers of borrowing the society's funds.

Provision should be made for an internal standing committee of supervision, wholly outside of the directorate, which shall have powers of continuous audit and surveillance.

The efficiency and completeness of periodical audit by persons outside of the society should be provided for, and in such audit, as well as in general meetings, the interest of depositors, debenture holders and other creditors should be safeguarded by convenient means, such as their representation by a separate co-auditor or by delegates.

* For a complete statement of the proposed law, see Appendix I, Chapter on 'Law,' and the 'Draft Bill.'

Societies, which receive deposits beyond the amount of one year's subscriptions to the shares, or beyond the amount of the reserve capital and reserve, should be compelled to invest their paid-up capital, or at least a portion thereof, in Government securities, in order to provide a material guarantee for the depositors. A similar provision is required before debentures can be issued. In no case should the aggregate of such deposits or debentures exceed ten or twenty times the amount of the capital, or the total actual value of all outstanding loans.

Debentures should form a principal means of financing the societies, especially those that deal in mortgages. Provision should be made for their issue against the mass of mortgages or other bonds held by the society, the aggregate outstanding value of which must be the outside limit of the aggregate value of the debentures. They should be of long term, of very small individual value, and repayable only by periodical drawings, at the will of the bank. Since the banks will be village or very local banks without the reputation which ensures cheap credit, the debentures issued by them should be accepted, if necessary, by a central bank, such as the Bank of Madras, which being acquainted with the affairs and solvency of the local banks, would issue its own debentures in representation of the local bank's debentures, and thus provide cheap capital: the local banks would satisfy the postulate of proximity, while the central bank's debentures would command a good market; the central bank would thus issue capital to the rural borrowers through the local banks as intermediaries.

33. *Privileges.*—Various privileges should be granted, fiscal, legal and executive.

Fiscal may take the shape of reduced stamp duties on the memorandum and articles of association, on mortgage and other bonds between the societies and borrowers, upon the issue and transfer of debentures; of reduced charges for registering the societies, and of reduced registration charges on documents. There seems no necessity to exempt banks from income-tax, for if they are joint stock banks they should pay like other trading concerns; if co-operative, large profits are against their principles, and if derived should be taxed, seeing that it is within their power to reduce their profits to a minimum by reducing the terms of their loan.

Legal privileges are those granted for the recovery of loans, such as distraint, sale without the intervention of a court, provision that registration of a bond shall have the effect of a confession of judgment thereon: the privilege of the 'purge' giving the bank priority, for itself only, over all unregistered claims not made after due notice; priority of the bank's claims (savings banks only) in case of the death or bankruptcy of trustees or officers of banks holding any of the bank's funds; priority of the claims of all loans granted for land improvement; the privilege, in the case of co-operative societies and savings banks, of determining in a simple way, on the decease of a member or depositor, the succession to a given value whether in shares, deposits or other shape, the privilege that in similar societies or banks the shares and deposits of a member to a given amount shall not be attachable by any process of court. It will also be advisable to recast the registration system, so that it may become a registry of titles and not only of deeds.

Executive privileges are those of using the Government treasuries for the deposit of strong boxes and funds, of opening accounts with Postal Savings banks which shall be treated as 'Public Accounts' under the Savings banks' rules, of obtaining subventions or guarantees, of free postage in correspondence with officials and of Government supervision. Subventions may take the form of small advances for first working expenses; it will probably be found that these will suffice; such loans may be made free of interest for a term not exceeding two or three years; it is frequently the difficulty or expense of the start which prevents the establishment of societies; free registration of the society, the removal of stamp duties on the memorandum and articles of association, and Rs. 100 for first working expenses would often suffice. There appears no serious objection to such small assistance at first start, and till the country has adopted the habit of organizing its credit; while careless individual charity begets beggars and paupers, a small loan to a deserving but struggling man will often give him precisely that impulse,

that start in life, which makes a thriving citizen out of a sinking pauper. Subventions in the larger sense of the word, *i.e.*, loans of considerable sums of money at favourable rates of interest or without interest, are seldom useful, and are absolutely rejected by the co-operative societies of Europe. If used simply as a reserve, they induce a tendency to reckless business, since the reserve bears all losses; while, if used as working capital, they will be lent without that scrupulous regard to security which is ordinarily found when capital is the result of personal saving. If subvention goes still further, and is more than a mere *supplement* to the general funds of the society, it destroys the main principles which must underlie the true organization of credit, viz., prior and continuous thrift, self-help, steady foresight, incessant self-restraint; it strengthens the idea that a people is to be supported by State crutches, that its misfortunes, however they may arise, are to be relieved *ab extrâ* and usually at public, *i.e.*, at other tax-payers' expense. Still less is it advisable,—it is indeed a grave economic and national error,—to provide a society with all the funds it needs at State, *i.e.*, at the tax-payers' expense.

It is otherwise, to a great extent, with advances which are merely business loans paid for at market rates, and based on business principles. It is notorious that these societies cannot trade successfully or develop their full value if they use only their own capital; the subscribed capital and reserve should be used rather as a guarantee capital securing the deposits, debentures or other loans attracted from the public. The foundation principles of such societies should be an own capital used to secure borrowed capital; the own capital may be either a subscribed capital, since such subscriptions initiate and enforce the habits of thrift, or the general property of the members duly charged for the security of the loans. From the society's point of view the borrowed capital may, in this case, be just as readily accepted from the State as from the public; the State must however demand (1) full market interest, viz., that at which it can itself borrow; (2) an insurance element as cover against losses; (3) wages of supervision and other costs of borrowing and lending; (4) a charge sufficient to recoup any depreciation of its own credit caused by large borrowings; (5) a charge for profit. If all these items are not included, the loans will, *pro tanto*, be at the expense of the tax-payers, private savings and deposits in banks will be checked, the free play of competition will be stifled, and the public will be taught that rural banking is merely a form of State charity.

There are not many examples in Europe of Governments issuing public money for general or even for mortgage credit purposes; when State money, except in certain small States, has been used, it has been for some such purpose as the Russian loans to ex-serfs for the purchase of land, or the loans from the Treasury to Irish tenants for purchases by tenants under the several Irish Land Acts, or loans for specific land improvements, such as drainage, as in England, France and Germany. Still it is recognized that if the public necessity is urgent, State funds may be advanced. It may be that in this Presidency though the mortgage and other debts may not be grievous, the necessity for establishing or encouraging banks is so imperative, as to justify the partial and temporary use of State funds, but always on a business footing.

It is, however, from a national point of view, a serious objection to large State subventions even at full market rates, that if the banks look to Government for funds, they will the less bestir themselves to attract private savings, so that national thrift will be the less stimulated. It is far easier to borrow twenty or thirty thousand rupees in a lump from the State as creditor, than to receive the same in thousands of petty accounts with their continual in- and out- payments. Yet it is precisely by the stimulation of these petty accounts that the banks will fulfil a chief function of their existence; they are not intended merely as sources of credit, but as provocative of thrift, as the depositaries of savings, as the developers of capital, and, finally, as instruments of credit.

From another point of view large State subventions are inadvisable; it is not only impossible for a State to provide the crores of rupees necessary, but it is politically objectionable that the State should be a general creditor.

But it is suggested that moderate Government advances are not only permissible but desirable. It is found by experience that small State advances for initial expenses go very far in promoting the establishment of Village banks; many

inchoate banks have been stopped in the initial stage by the cost of the preliminary expenses which necessarily fall on the promoters; small grants of money coupled with reduced fees would not only remove this difficulty, but would stimulate the formation of banks by evincing the interest and opinion of the authorities. The interest shown in the Raiffeisen Village banks by the Emperors of Germany coupled with very moderate grants of funds—in all only £2,500—has assisted their development, and in Austria the Provincial Governments are similarly favouring these societies and making small advances for initial expenses, so that 245 societies were formed in about five years. These small advances should be for short terms, say three years, at 3 per cent. interest, and be payable by the Commissioner.

More substantial aid may, however, be given in providing a moderate share of the early working capital. Such assistance should be moderate and temporary, not exceeding one or two thousand rupees for each bank and repayable by annuities within, say, ten years. The principle of State advances for land improvements and even for loans to agriculturists has been deliberately recognized by law; in making advances to banks for *productive* loans generally, the principle is but slightly if at all widened. It would, indeed, be easy to provide that State advances should be used only in certain classes of loans, and the Commissioner's inspections would insure adherence to this condition. The result would be that the State would grant loans to associations instead of, as at present, to individuals, a method by which burdensome individual enquiries would be eliminated and security increased. The State advances might be given as direct loans, by subscribing for founders' shares, or, perferably, by purchasing debentures; the State would thus, especially in the last-named case, be secured not by a petty individual property for each loan, but by the whole mass of securities held by the bank, as well as by the credit and reserves of the bank itself.

The aggregate amount to be provided by the State would be extremely moderate. If the average grant per bank be Rs. 2,000, the term of gradual repayment by annuities ten years, and the number of banks started 1,000 per annum, the aggregate required would be only 100 lakhs. Since this sum could be borrowed at $3\frac{1}{2}$ per cent. and lent to the banks at 6 per cent., the profits to the State would be $2\frac{1}{2}$ lakhs annually, a sum amply sufficient to provide for supervision, costs, insurance and the like.

It should be a condition of the grant that shares should be under subscription for an amount equal to at least three times the amount of the grant.

Government advances, if granted at favourable interest, should by law take precedence of all other debts of the bank; if granted only as business loans, they should not be so privileged, since the terms include a charge for insurance.

Advances may often be usefully given by the purchase of the society's debentures or founders' shares; such purchase in open market has none of the bad effects of a direct loan, while it is a certificate of the interest which Government has in the enterprise, and of its confidence in the society's stability. In such case Government would rank with other debenture creditors.

A State guarantee is an alternative form of subvention, and has the advantage of not requiring State funds. But it is obviously dangerous if the guarantee covers the whole amount of the bank's transactions, and would lead to the most reckless trading. A State guarantee might be confined to the amount of interest only and would cease upon the liquidation of the bank; any losses to Government in any one year by the guarantee should be recouped in succeeding years by a first charge upon the general profits or a guarantee might be given up to a proportion of the capital.

Power should be given by law to the Government to enforce the formation of a Public Reserve or Insurance fund to which every bank registered under the law should be compelled to contribute; such reserve to be used solely as a guarantee for the repayment of sums due by banks in liquidation, whether due to Government on account of advances or guaranteed payments, or to the public in general as depositors or other creditors. This Public fund should be entirely independent of any reserves held by individual banks, and should be held in trust by the Accountant-General and invested in Government securities.

Advances whether by loan or guarantee, connote corresponding supervision, apart from the general supervision to be exercised by the State over banking

concerns. This may be effected by a right to appoint directors proportionately to the interest involved.

34. *Supervision.*—This is absolutely necessary, and is found in every country of the world without exception, where banking, and especially the banking of the poorer classes, is involved; still more when national thrift, providence and self-help are concerned. Such supervision is as marked in England and America as it is in the countries of Continental Europe, as shown in detail in Appendix I (*see* the several classes of banks, and the chapter on 'Law'); the United States in their several banking laws, provide complete instances of this supervision.

It is recommended that this supervision be exercised by a Commissioner who may, as in Italy, be the Director of Agriculture, Trade, and Industry. The Commissioner should be the general registrar, referee, and adviser for all such societies, should collect useful information, promote and stimulate the formation of societies, preside in person or by delegate at the general meeting preliminary to formation, and report annually to Government upon the general condition of societies. The law should provide for him powers of inspection through proper examiners and auditors, of demanding returns in forms and on subjects to be settled by him, of deciding disputes, of compelling proper audit, of refusing the continuance of a certificate to an unsound society, and of compelling liquidation by application to court. The Commissioner should have power to grant minor subventions for the starting of banks and societies, and all recommendations for the larger class of subventions should be made by him.

The law should also provide permissively for local Boards of control and supervision to be appointed by the Commissioner under rules to be approved by Government; such Boards should undertake the local duties of the Commissioner especially in the matters of promoting and advising societies, of recommending them for subventions, and of arbitrating, but should have no control over the examiners or auditors appointed by the Commissioner for the due inspection of the societies' affairs and accounts. Members of such Boards might be paid travelling allowances and moderate honoraria from a fund to be contributed *pro ratâ* by the several societies. The Boards would, however, be useless as soon as the societies organized themselves into groups, as is invariably the case with the German and Italian co-operative banks for the purpose of stimulating the starting, development and due management of societies.

The stimulative functions of the Commissioner and of the Boards would be of the highest importance; they would exercise a continuous stimulus upon the dull conservatism of the villages by the provision of information, by the visits of inspectors and members of the Boards, by inviting influential ryots to be present at the meetings of successful banks, by the establishment of a special 'Moniteur,' and by other like methods. The Commissioner and the Boards would encourage and stimulate at least as usefully as they would supervise.

35. *Liquidation of debts.*—The prior liquidation of debts by a Government staff has been demanded as a necessary preliminary to the establishment of banks. Whatever its necessity elsewhere it is not needed in Madras; debt in general is in no way overwhelming among the ryots, who are fairly solvent, with of course many exceptions. Banks will find a sufficient clientèle among the solvent ryots to begin with, and can adapt themselves to the poorer or more involved as they attain experience, a settled position, and surplus funds. The state of the peasantry in Europe is not one whit less involved than in Madras; probably indebtedness is in Europe, more pressing in general than in Madras, yet no attempt has ever been made to liquidate prior debts. For one thing it is impossible; the Prussian Government expressly admitted in the law of 1807 that it passes the power of Government to succour individuals and that it would be inadvisable to attempt it; the enormous difficulty attending the commutation of fixed feudal charges, a mere trifle which required bank advances for only £13,000,000 for the whole kingdom, shows the impossibility of liquidating the private debts of a nation. Nor does the history of the European Popular Banks or of the Madras Nidhis show any such necessity; whatever the poverty or indebtedness of the clientèle of the banks, whatever the demands of the usurer, or his power over the peasants, the mere action of the banks themselves, started, be it remembered in the humblest and smallest way amongst the poorest of men, has sufficed; the bank lends the money at favourable rates and

the borrower therewith pays off his usurious debts; in fact, one chief object of the Nidhis is the removal of such debts by their loans. To this, however, might probably be added the action of banks as arbitrators in reducing the claims of creditors.

One great argument for the absolute restriction of banks to a small area is the very fact that in this way no liquidation is necessary; liquidation is only sought for to provide banks with a ready-whitewashed and solvent clientèle, so that the bank, without effort of its own, may begin work as a fully going concern. A large central bank requires such a clientèle to be provided for it when it proposes to deal, off hand, with a mass of petty cultivators, none of whom has ever dealt with a bank before; liquidation in fact is a mere means of handing over a clientèle not only ready made, but bound by contract to the bank. That is not the true principle of action.

But though a general liquidation is unnecessary, provision may be made for arbitration, so that either the Commissioner, or his delegates, or the local boards, or the officers or delegates of a union of societies, or of any particular society, or, finally, the Village or other Courts, might arbitrate between a member of a society and his creditors. Such arbitration may be declared compulsory upon the application of the debtor up to the amount of Rs. 20 before a Village Court, or Rs. 50 before any other Court, but optional or dependent upon the consent of both parties in all other cases. By this means the redemption of prior debts through loans from the banks will be facilitated.

36. *Registration.*—The development of the Registration law, from one of mere assurances to one of title, is a very wide subject. That it is a necessity, probably of the near future, cannot be doubted; there must be some legal and absolute record of title. Its introduction is perfectly feasible, especially now that the cadastral survey of the ryotwari tracts of this presidency is practically complete, the primary condition of a complete system of registration of title being thus fulfilled. A discussion in this report of the methods of such a system, is, however, impossible; a complete prior study, both of the various systems and of the conditions of the Indian problem, would be required; only a slight sketch will be found in Appendix I.

There can be no doubt that if the land registers of the Revenue officers showed not merely the names of the Government ryots and their holdings, but were actual estate registers showing occupancy, title, and encumbrances, so that any sharer, occupier, or encumbrancer must find place on the estate folio, land banks could safely lend so far as these facts are concerned. What, however prevents land banks from lending to small folk is not so much difficulties of title, as the chance of prior encumbrances, the difficulty and cost of valuation as compared with the size of the loan, and the worthlessness, to a distant bank, of the petty parcels offered as security. As regards prior encumbrances, the new form of indexes will remove all difficulty in ascertaining them, but no change in registration methods can obviate the necessity for valuations, or render small isolated patches of land a desirable security to a central bank.

Fortunately, the difficulty is almost entirely obviated by the establishment of village banks as against central banks; small local banks, like the local money-lenders, require no registers of title to make perfectly sure that the lands offered in security belong in fact and in law to the borrower, while they have other means of preventing any fraud either in title or by concealed prior encumbrances; they are on the spot and can value the lands without difficulty, while the security even of small patches of land, is perfectly good, since they can prevent those collusive sales for arrears which would be the danger of the central bank. The ability of the Mofussil Nidhis to grant mortgage loans freely without recourse to the Registration offices and without loss, and the fact that not a single suit regarding title or prior encumbrance can be found on their records, shows that, however desirable, a system of registration of title is not essential to the establishment of village or local banks.

37. *Other amendments.*—Certain amendments of the general and of special laws are needed, for which the chapter on 'Law' in Appendix I must be consulted. Such are the amendment of the Usury Law of 1855, so that Courts may have discretion to modify the interest in a transaction where the circumstances disclose real usury: the legal recognition of the Bill of Sale, with provision for its registration:

certain amendments of the Companies Act, the Transfer of Property Act and the Stamp and Registration Acts.

38. *Summary.*—Starting from the postulates of credit, viz., proximity, security to the lender, facility and safety to the borrower, the quality of proximity being essential in rural credit, it has been shown that practically the only institutions which have succeeded in bringing to the peasant that continuous ever-fluctuating credit which he needs, are, except in Switzerland, the popular co-operative banks of the several classes known as Schulze-Delitzsch and Raiffeisen banks with their congeners and followers on the continent of Europe; other classes give credit on mortgage such as the Building Societies of England and America, and these societies are the mortgage banks of the small folk; saving banks also succeed to a considerable extent in assisting such folk with credit, chiefly on mortgage. But the great land and other banks, whether privileged or not, are able to assist only large and medium cultivators.

All the successful systems have been the work of single philanthropic individuals who have conceived the ideas and have personally and patiently laboured,—it may be without success for even tens of years,—until their ideas have become established and successful facts; it is not the State but the individual who has originated and developed the ideas of thrift and popular credit in Europe. Nevertheless had it been possible to foresee the methods and the difficulties of the several institutions, it would have been advisable to assist their development by favourable laws and otherwise, as has been done when their scope and limitations, their defects and their successes, became apparent.

In Madras banks in general are wholly wanting and the individual money-lender is universal and supreme. He is expensive and dangerous even when a ryot; it is difficult to control or bridle him save by wholesome competition, which must be provided by banks of all classes other than State banks, but with a decided leaning towards the co-operative system, as promoting not merely facile credit but safe credit, and not merely facile and safe credit but the fundamental virtues of thrift, providence, self and mutual help. A beginning is already found in the Nidhis which are the development, on Building society lines, of the indigenous 'Kûttu-chit' system of this Presidency; these Nidhis are endeavouring, and with some success so far as they have gone, to grant credit of various classes to their clients. They are however defective in many ways, in spite of their being developments of an indigenous idea; they number only 140, though their original was started in Madras in the middle of the century, just when Schulze-Delitzsch and Raiffeisen conceived the ideas which have resulted in the many thousand credit societies or banks of those types, and they are apt to diverge not merely from the co-operative principle, but from sound business. It is clear that the movement requires recognition and assistance by the legislature, by the executive, and by the sagacious and prudent of all classes.

Finality, however, is not to be found in this or any other particular system; it is in the adoption of the general principles of banking, of organized and popular thrift, and of popular distribution, that success lies; these principles must take various shapes as in the numerous institutions of the West: it is in the general ramification of organized thrift and credit, especially in their co-operative forms, that success is to be sought.

Banks, whether Nidhis or other, should be promoted by a law which shall favour their formation and management, shall grant fiscal, legal and executive privileges, and shall provide a considerable degree of supervision over them, but shall not require direct State interference in their management. State funds on favourable rates may be granted only in small sums for first expenses; if in large sums, then only as thoroughly business transactions upon business terms. In general, however, the banks should rely upon the public for their funds, through the attraction of deposits and the issue of debentures. All rural credit should be under the supervision of a commissioner who should be preferably the Director of Agriculture.

But the chief development of every class of institution for the promotion of thrift, prudence, temperance, self and mutual help,—institutions so sorely needed and so conspicuously absent in this country,—rests with the men in whom

enthusiasm and philanthropic fervour for reform are mingled with knowledge and practical skill, and with the perseverance which knows not the word '*impossible.*'

There is nothing in the existing law, nothing in the action of the State, which hinders the establishment of thrift and credit societies whensoever and wheresoever they are demanded; the law and the executive may not, as yet, have granted privileges or even issued suggestions, but neither have they placed obstacles; the conditions of society, so far as they depend upon the law and upon Government are not unfavourable to the establishment of societies: fiscal burdens are moderate, the power of association absolutely unfettered, communications easy, justice pure and fairly prompt and accessible, the press developing, and public and individual enterprise unhampered. The obstacles in Europe, at least in 1850 and for decades thereafter, were much more considerable, yet societies originated and prospered exceedingly. Even in this Presidency the success of the Nidhis is a proof that, given personal zeal, intelligence and honesty, there is nothing to prevent the complete financial success of societies even under the present law and conditions. What is wanted is the individual initiative and continuous devotion of those who by their position and education, by the wisdom of an educated philanthropy, should lead the country in the path of rural reform.

There are in every considerable village men fully the equal in intelligence and status, of the men who in Europe locally administer the movement and direct the institutions; it remains only to find the men of apostolic fervour who will pioneer and champion the idea, and will labour in person in the villages, not merely or so much in lecturing and writing, good though these may be, but in the actual establishment and administration of humble societies. It is not in great schemes or institutions, not in reports or circulars or Government orders, not even in specially granted privileges, that success lies, but in the unassuming labours which, starting with simple ideas, simple aims, and simple facts overcome each difficulty as it arises, and perfect, *ambulando,* the systems which shall be found suitable to the needs of the country. It is beyond the power of any brain however fertile, of any man however fully informed, to conceive in advance a method, *confectus ad unguem,* of banking for the people, least of all in a country where the conditions are so novel, the banking idea so absolutely unknown, as in this country. Success can only arise from the long-continued, practical efforts of zealous men, who while informed in the details of every method yet tried, can yet live among the people, vivify them with their own spirit and intelligence, energize them with some of their own enthusiasm, and, with them, work out in actual fact, even though on the humblest lines, the system or systems of the future. Success may not come in a year or in a decade, but if there are in this Presidency men of the character and energy of those pioneers of popular banking whose names have been so prominently mentioned in this report, it cannot be long delayed.

APPENDIX I.

PART I.—EUROPE.

CHAPTER I.—CREDIT.

Necessity for credit.—The lesson of universal agrarian history from Rome to Scotland is that an essential of agriculture is credit. Neither the condition of the country nor the nature of the land tenures, nor the position of agriculture, affects the one great fact that agriculturists must borrow. If the country is undeveloped as were the plains of ancient Italy, the wastes of Scotland, the prairies of America, the early settlers harassed by the uncertainty of season acting upon defective methods, are forced to borrow; if the country is highly civilized and populous, its farmers are driven to intensive agriculture for which their own capital is seldom sufficient; even when the actual farmer is a considerable tenant as in England, and is therefore not only in command of considerable capital, but holds his land without the need for sinking his capital in the purchase of land, he is frequently compelled to borrow either by way of advances against crops or in order to purchase stock; in fact his mere enjoyment of the land in which his landlord has invested an immense capital is a practical enjoyment, *i.e.*, borrowing of that landlord's capital, and that at low interest. Still more, then, is the small farmer of Europe under the necessity of borrowing for centuries harassed by war, feudal disabilities, misrule, holding petty areas of often unimproved land; compelled by his tenure as proprietor to expend his capital in the purchase of land usually at competition rates; forced by the laws of inheritance to mortgage his land on behalf of co-heirs for whom the little farm cannot provide a further subdivision; obliged therefore to borrow further capital for working capital, for maintenance, for taxes, &c.; harassed by seasonal disasters hardly exceeded even in India, such as drought (as in 1893), floods and excessive rain, hail, cattle disease, insect pests and blights from the ordinary plagues to the phylloxera which swept away vineyards to the value of many millions sterling; with these embarrassments the necessity of the European agriculturist for credit and for cheap credit, is intelligible. It is, then, wholly unlikely that the Indian peasant, especially the small ryot of Madras and Bombay, will escape this necessity; in fact he has not done so, and his position as a borrower, and the defective methods of credit alone open to him are amongst the subjects which most persistently force themselves upon the attention of students of rural economy. This study assumes as axiomatic that the peasantry of India must, by the very conditions of their existence and tenure, borrow, and borrow freely, annually and continuously.

It must be remembered, however, that agricultural borrowing or even indebtedness, is not necessarily, perhaps not generally, parallel with that of the ordinary tradesman or professional; in agriculture, especially where the farmer is also proprietor, credit almost entirely represents not merely an actual business transaction but a product either actual or potential; it is generally either an advance to provide for the growth of a crop, an advance upon an existing crop, or an advance upon the land and stock of the farmer. In other words, not only is the credit a safe transaction for the lender, being based upon actual production or productive property, but it is safe, in its essence, for the borrower, since it is merely the anticipation of a crop, actual or potential, or it is the temporary mobilization of part of the capital possessed by the peasant in his land and stock. When therefore a peasantry with land worth 200 crores, and annual produce worth 50 crores, has annual borrowings of 20 or even 30 crores, it does not necessarily follow that such peasantry is at all seriously embarrassed; it may and often does mean temporary mobilization of existing capital. It may indeed and often does mean a true development of wealth; if a man with land worth Rs. 500 mortgages that land for Rs. 300, and sinks the proceeds in a well, he merely mobilizes temporarily a portion of his own actual capital not that of a third person, and when the loan is paid off from the plus-value of the improvement, he has increased his own and the country's wealth by Rs. 300.

Unfortunately agricultural credit, safe and cheap though it *should* be, being based upon facts and things, is precisely the credit which is the dearest and most productive of cruel wrong to the borrower; the ignorance and isolation of the peasant, the contempt with which urban banks would view the application by an unknown peasant for a petty loan, or for a cash credit dealing in tens or even in single rupees, the uselessness of the security offered, viz., the little farm, or the poor stock, to an urban bank or even urban lender, or in fact to any lender outside of the borrower's immediate neighbourhood, account for much of the difficulty; on the other hand the monopoly possessed by the small local capitalist, his desire for gain, for land, for local influence, the history of custom, and an actual scarcity

of loanable capital—*i.e.*, surplus capital seeking investment,—in the rural tracts, account for much of the remainder. When to these difficulties are added those of seasonal stress, the uncertainties attending any particular crop, and the results of the peasants' own improvidence and extravagance, often induced however by a sudden access of mortgagable wealth, the difficulties of agricultural credit and the dangers to the borrower are sufficiently accounted for. It will be seen then that since credit is essential to agriculture, it is equally essential that credit should be cheap but above all safe, and it is assumed in this study that it is one of the duties of the State, especially of an agricultural State, to take precautions that rural credit shall be both accessible, cheap, safe and productive, not necessarily or even probably by any serious direct provision of credit, but by the provision of laws which shall favour the development of such credit.

The right use and modes of credit.—It is then beyond dispute that agriculturists, especially small ones must, in the present state of society and industry use credit. But the use of credit as distinguished from its abuse, the directions in which it may be properly employed and the methods by which such use may be safeguarded are not so clearly determined; this is shown by the fact that the whole Indian discussions on the subject turn upon the question of facile and cheap credit, as though the Indian ryot were capable, if supplied with such credit, of distinguishing between use and abuse; as if he would be able, untaught, untrained in calculated thrift and prudence, to restrain himself from mortgaging his credit to its full value whenever there arose what might seem to him, to his family or to his neighbours a necessary opportunity for so doing. No nation in the world, not even the German peasant, has refrained from using to the full the mortgage credit made available to him by social and political events such as, in Prussia, the change from feudalism to independence, in India the evolution of order and the establishment of general peace, in America the development of values by the introduction of railways and the accumulation of wealth. Much indeed of this indebtedness is due to causes outside of the farmer's control, but it is none the less true that the abuse of credit, even among the more intelligent and wealthy class, is general.

Credit is a weapen that may destroy the unskilful wielder; it is helpful or destructive according as it is used or abused. The abuse of credit may be seen in millions of cases where the power of mortgaging a sudden and unearned increment of value has beguiled the ryot or the European peasant into an indebtedness which finds no counterbalance in an improved estate; its use and power in those wonderful and stirring pictures of revivified peasant life which are to be found in the reports of the Raiffeisen and Wollemborg Associations of Germany and Italy, in which the ignorant, starving, usury-ridden Bauer or Contadino—the latter often a mere tenant—finds new powers, new hopes, and new prosperity through the agency of associated credit. It is not credit alone that has done this; isolated credit means, as heretofore, isolated and therefore ignorant ideas of the use of credit; it is in the addition of mutually helpful association that credit assumes that ability to stimulate, strengthen, and raise the peasant even when a drunkard, an idler or a pauper, of which the Raiffeisen and Wollemborg societies present such striking object lessons to the Indian world. Free and unrestricted credit to agriculturists in isolation is a positive danger; credit in association, guided and influenced in its use by the wiser counsels, by the increased self-respect and self-restraint which association with the wiser and more prudent in a mutual self-developed, self-managed association, produces, is a powerful restorative, an educative and disciplinary agent, a national necessity.

Hence it is not merely cheap and facile credit that is needed; it is not money lent on easy terms without regard to the use made of the money it is guarded, guided and productive credit that is the necessity of the times; the form which organized credit must take must in itself be a safeguard, a guide and a restraint, so that credit may be used not for mere extravagance or even without intelligent foresight, but only in such manner as will conduce to prosperity and production. Credit which takes no heed of the borrower, no care for his well-being, is not the credit that this study contemplates; only that credit is sought which develops the man and the nation; it is the development of men, not of banks, of banks only as developing men, that this study desires to facilitate.

Need for organized credit.—It is well to enquire why the establishment of banks is considered advisable; whether in fact the present system—so called—of private money lending is not or may not be made safe and sufficient. It might be sufficient to point to the economic history of every modern nation which proves that the individual money lender has everywhere given place to organized credit, just in proportion as society advanced in complexity, in general wealth, in trade, in the development of the middle classes, in the reign of law, order and confidence, and in all that the 19th century terms civilization; developed institutions cannote organized credit. This, however, is no sufficient answer: the true reason why it is desirable to replace individual by organized credit is to be found in the results of banking credit, and in the requirements of industry, especially of agriculture.

The promotion of thrift, the utilization of petty and idle hoards in productive industry the necessity for drawing from larger sources of capital, the ability to grant long-term loans and to receive loans back in small instalments; the public and open methods of business; the general absence of fraud and chicane in dealing with borrowers; the absence of desire to possess themselves of the land of their debtors, or to acquire undue influence over them for selfish ends; the tendency to grant loans chiefly for productive purposes for the sake, however, not of the borrower, but of their own security; such are advantages

common to all institutions of organized credit. But the greatest of all advantages is found in that class of banks called co-operative, where the advancement of the members, *i.e.*, the borrowers, is the principal object of the banks, and not the mere earning of dividends on capital, still less the exploitation of the borrower. The moral and material effect of association in a really co-operative bank is marvellous; the new power obtained by the members, the educative influence exerted by the bank in promoting improvements and discouraging extravagance, the continuous impulse towards further developments, not merely in credit, but in all manner of social and industrial improvements, which the principle of association develops, proclaim the co-operative societies of Europe and America as factors of incalculable value in social development. It is this reason above all others that is of weight in determining whether credit should remain a monopoly of the private lender, or should develop by organized association. It is not every organized credit that has all these merits; joint stock credit is good, but it lacks the weightiest of all reasons, that of the effect of mutual help in co-operative associations. Joint stock credit has the interests of lender and borrower in a manner opposed, while in many such organizations, it is the special interests and often object of a body of men to exploit borrowers and depositors for the sake of private gain. Joint stock credit attains its real development only when its own interests are absolutely bound up with the interests of the community, when the community is at the same time the promoting body and the clientèle; in other words, when it is co-operative.

It is assumed, then, as axiomatic, that the establishment of an organized system of banking, especially co-operative, is desirable and even necessary, to promote the useful accumulation of capital, to develop the qualities of thrift and prudence, to assist industries and especially agriculture by long term loans, to turn credit into productive channels, and to stimulate into activity the great virtues of self and mutual help.

The applications of credit.—These are generally (1) the purchase and improvement of land, including the development of irrigation and drainage, the planting of orchards, &c.; (2) relief from prior debt; (3) the purchase of cattle, manure, seed, implements, stock in trade including raw material for artisans; (4) house-building and furnishing; (5) advances in anticipation of the sale of produce; (6) maintenance; (7) advances for undertaking contracts or business enterprises; (8) payment of revenue or rent, (9) education; (10) legal expenses; (11) manufacture and purchase of ornaments and other tangible luxuries; (12) mere unproductive and wasteful outlay. Of the above applications it will probably be conceded that banking credit as intended by this study will take no heed of class 12, and will discourage classes 10 and 11, the minimization of expense under class 10 being, indeed, one of the chief functions of rural associations by the provision of methods of conciliation and arbitration and the discouragement of resort to the courts except in case of necessity.

Classification of credit.—This, following the divisions of capital in its widest sense, is divided into three heads, real, chattel and personal; the first is that based on land and immovables, and should ordinarily be used only for long-term improvement loans, secured by mortgage; the second is that based on movables whether by actual pledge as in pawnbroking or deposit of valuables, or without delivery as by bills of sale; the third is that indeterminate credit based on what is technically called "character," but which really includes a man's status, property, character, power of obtaining sureties, and prospects; such is the ordinary cash credit of Scotland, the general credit of the Popular Banks of Europe, the common loans to agriculturists by money lenders in this and every country, shop credit, and the personal loans of the Madras Nidhis. Each class of credit has its own appropriate institutions; it is rarely that all or even several of the classes are combined in one bank; even the Madras Nidhis, while granting all classes are usually found to deal chiefly in one or other class.

The conditions of rural credit.—Recognizing the above as a statement of the chief uses for which rural credit is required, it remains to examine the postulates of such credit. These fall into various classes; (1) those which are demanded by credit in general and by both lender and borrower; (2) those demanded by the lender; (3) those needed by the borrower; (4) those demanded by the particular applications of credit. While thus classifying them for convenience sake, it must be noted that the absence of those demanded by the lender, eventually affects the borrower; what is unsafe for the lender, must cost the borrower dear.

Proximity.—That which is required jointly by both lender and borrower may be summed up in the word "proximity." The great lesson of European credit is that without absolute proximity there is no such thing as credit on any reasonable terms for the small folk; hardly indeed is there credit at all. Until of late only one form of credit satisfied this postulate, viz., that of the private money lender; his credit satisfies the postulate of proximity, but not necessarily any other postulate.

The borrowers contemplated by this study are the men of the villages, and the loans those required by small and obscure folk; no bank of any ordinary type can get down to the villages, ascertain the status of the small farmer and the security he can offer; the expenses of the enquiry and the risks of the loan would render the necessary cost of any loan far higher than that of the local and proximate money lender, who, probably a villager himself, certainly with a life-long connection with the village clientèle, knows his men and their position better than they themselves. Moreover the peasant is at least as

ignorant of town banks, at least as distrustful of their strange methods, and rigid rules, as the bank is ignorant and distrustful of him, with the result that bank and customer cannot get on terms one with the other.

The German Land Banks, the French Crédit Foncier, the Hungarian Boden-kredit Institute have nowhere attempted to deal with the masses of peasant; till of late only the Scotch Banks with their peculiar history and thousand agencies, and an occasional State bank in some petty German State, have succeeded in giving to the peasant that *continuous* credit, mortgage and personal, which he requires; as elsewhere pointed out, the rent charge Banks of Germany and the Peasants' Land Banks of Russia are not cases in point. But of late, say from 1850, banks have become increasingly available to the peasant even of the smallest type; such are the Swiss Banks, the Savings Banks of Prussia, the Popular Banks and Credit Societies of Germany, Austria and Italy, the Building Societies of England and America, the National Banks of the United States. In every one of these cases the first reason of their success is their absolute proximity to the clientèle, so that that knowledge which is the first basis of all credit, becomes a fact. The successful Societies (Nidhis) of this Presidency are successful and prosperous just in so far as they deal with a purely local clientèle; the invariable answer to questions as to the security of loans, is, on the part of the borrowers and members, that they know the directors and trust them and their management, on the part of the bank that their directors are intimately acquainted with the candidates for loans. Proximity involving knowledge, mutual confidence, ease and cheapness of enquiry is an essential; *without proximity no credit.*

Postulates demanded by the lender.—These may be summed up in the word *security.* If a lender is secure that his loan will be eventually repaid, that the dues will be punctually met, that arrears shall be easily recoverable, that his contract will be faithfully observed that evation, fraud and delay by debtors will be minimized or eliminated, capital will flow readily to the borrower on terms which will be cheap and equitable provided that the borrower's postulates are also satisfied by the elimination from the contract of the results of monopoly, custom and personal greed on the part of the lender.

Hence an important consideration in credit is the sanctity of contract, always provided that such contract has been made under conditions in which the borrower if not on equal terms with the lender, is yet an intelligent and free agent. That is not always the case where the borrower is an ignorant peasant who, though aware of the terms of his first contract, is incapable of understanding the results of the contract, or of the methods which may be adopted to entangle him yet deeper in the toils of the lender. But in probably the bulk of the credit transactions of this Presidency, there is no deliberate attempt to ruin the borrower; the terms may be hard, but not necessarily iniquitous, and the ryot proper is perfectly capable of intelligently dealing with the lender; it would therefore be an error to inflict on the Presidency, a Usury Law of any hard and fast nature; the Courts should have the power of adjusting contracts not only where the conditions of the existing Contract Act had been infringed, but where the lender had possessed an undue advantage over the borrower, the terms of the contract being, in such cases, an important class of evidence; in all other cases contracts, however hard, should be enforced. To this extent the Usury Law of 1855 should be modified.

But by far the most important elements are ease and certainty in the recovery of dues. Whatever may be said of the greed and tyranny of the lender, there is at least a *per contra* in the delays, evasions, and artifices of the borrower; concealed or antedated encumbrances, claims by minors and others, unpunctuality, concealment or fraudulent transfer of property violence or threats of violence to the lender or his agents, are so common as to lend a large degree of risk and uncertainty to rural lending.

At present the Courts are the only instruments by which the lender can recover, and however pure and prompt these Courts may be. there are always costs, delays, the chances of error, loss of time, bad debts and other difficulties which cannot appear in the costs allowed for by the Court even when judgment has been obtained; these the lender most certainly will not forego, and they are accordingly charged for as "insurance" in the item of interest to be paid for by good and bad client alike. It is true that in this Presidency, the Village Courts are open to the money lender, but they are comparatively little availed of because the sums at issue, not being as a rule mere interest or instalments of debt, but the principal itself, are beyond the jurisdiction of such Courts. Under the system of co-operative or other banks, it will be probable that the Village Courts will be far more largely utilized owing to the difference in the system of repayment.

Putting aside these Courts, the question is whether the creditor should obtain further facilities for the recovery of his dues, such as the power of distraint, the power to sell mortgaged property without the intervention of Court, the recognition of a bond or bill of sale if specially registered, as carrying a confession of judgment and as equivalent therefore to a decree of Court. Not one of these privileges is at present granted by the law, although in England the holder of a bill of sale can proceed to distraint as though a landlord, in Scotland the holder of a registered bond can proceed to execution as though on a decree of Court, and the English mortgage can, if the bond so provide, sell the property without proceeding to Court, in addition to any power, *e.g.*, of distraint, which he may possess under the not uncommon attornment clause in his deed. In India the question is whether increased facilities given to the lender, and the consequent cheapening of credit would not be more than counterbalanced by the increased power given to the creditor to expropriate the debtor or to bring such pressure to bear upon him that the

money lender, whether co-ryot or sowcar, would obtain an influence which would ruin the independence of the ryot. In the conditions of Indian rural society these powers should not be given to individuals, and this very fact is an additional argument against the money lender system of credit. But the same arguments do not apply to institutions operating in public, guided by distinct and published rules, incapable of acquiring property or personal influence, and seeking merely their due returns; still less to institutions such as co-operative banks, in which the interests of the bank are those of its members, and the bank stands or falls with the prosperity or ruin of its individual borrowers, to such institutions increased powers may be safely given, under a law providing for the due exercise of such powers and under proper supervision.

A further item of security is in the ease and certainty with which validity of title or freedom from encumbrances can be ascertained. The present registration system provides the means by which prior encumbrances can be discovered, but there is yet much to be done in the way of facilitating and cheapening searches; this is now being provided for by a new system of indexing. But the registration of title is still a *desideratum* entirely unprovided for by the existing system. The difficulty is not felt by money lenders who, by their complete local knowledge, by the information at their command through debtors acting as unpaid agents, and by personal influence, can generally guard against any loans on insufficient or imperfect security, but the cost of enquiry as to encumbrances and the dangers of defective title are insuperable obstacles to Central banks whose only information would be by searches in the registration offices and by paid and often venal agents. Purely local credit societies find no difficulties in this matter; the several Nidhis have in no case been damaged by this cause, nor do they ordinarily refuse loans by reason of such uncertainty; their proximity to their borrowers and the intimate local knowledge of the directors have obviated the dangers of an imperfect registration system so long as the societies have adhered to the system of strict territorial limitation.

A further item affecting security is found in that provision of the Revenue law by which lands sold for State arrears, are sold free of all encumbrances. This is a standing difficulty, which local money lenders minimize by their local knowledge, and discount by an addition to insurance. It can however be obviated in the case of banks by simple precautions elsewhere suggested.

Postulates demanded by the borrower.—These may be summed up in the words *facility* and *safety*. "Facility" means the proximity of a source of credit which upon proper security being tendered, will at any time, and to any amount grant a loan upon equitable interest and upon easy terms of repayment. "Safety" means the assurance that the loan will not only be equitable in itself, but will not involve the debtor in undue and unforeseen risks and entanglements; that the loan will assist and not endanger the borrower's stability, productive power, or independence.

The importance of proximity has already been dealt with; the points now to be noticed are the ability to obtain money at any time, to any amount and upon equitable interest and to repay it upon reasonable terms. While it is true that the private money lender is always at hand, it is equally true that he cannot supply all demands; the demand is greater than the supply, since the lender has only his own capital from which to draw, supplemented by such loans as he himself can obtain from his business friends; the borrower has therefore to pay either a competition interest, or the interest required by at least two sets of capitalists, or both. Moreover, suppose a borrower requires a large sum; the village capitalist cannot himself supply the full loan; hence the borrower must either reduce his demand or seek loans from other capitalists, some perhaps ignorant of his status; of these loans the first one alone takes the priority, the others ranking only as second or third mortgages, and demanding therefore increasingly high interest.

It is, however, in the repayment of the loan that the borrower not only enjoys no facility, but is very seriously hampered. This point has too much escaped attention; stress has been laid upon the willingness of the lender to give the borrower time, and to accept part payment in bad seasons; this is true, though there is an overwhelming *per contra*, that though the debtor thus gains a temporary respite, it has to be heavily paid for, in interest upon interest, or in fresh bonds with new conditions. But it is in the fact that loans are usually of short term or on demand, and are repayable generally in lump, that the most serious injury arises. Except for advances upon crops repayable at harvest, loans are generally for a given number of months or years, and are repayable—except under the 'Kanthu' system—in lump, or in very few instalments or, still worse, are repayable on demand. No private lender can stand out of his capital for many years except when the original loan is small and is allowed to roll up at compound interest with incessantly renewed bonds, as in loans to impoverished estates. Still less can he afford to receive his capital back in petty driblets spread, as under the sinking fund principle, over a long series of years. Yet it will be shown in this study that agricultural credit, especially when devoted to the development of land, must be of very long term and that the repayment must be in small driblets, solely from the profits or plus-value which the land or farm yields by reason of the outlay; it is an axiom as old as Adam Smith, that capital sunk in land cannot be recovered, but can only be gradually replaced by fresh savings out of profits. Hence the régime of the private money lender is defective in that very class of credit which is the principal object of the demand for organized credit. It is how-

ever precisely organized credit, that is banks, which can give the ryot the facilities which he seeks; having access to larger funds, drawn from the continually inflowing funds of members, shareholders, depositors, debenture holders, a bank can usually grant funds at any season and to any reasonable extent; interest is regulated not by the need of the borrower or by the competition for loans but by the published rules of business; most important of all, dealing as a bank does with hundreds or thousands of clients, it can receive from each his petty instalment by which is incessantly recomposed the mass of its loanable funds, and can thus satisfy the demands of the borrower for repayment through the process of slow amortization. It may be added that since the instalments will usually be below Rs. 20, arrears can be enforced by means of the Village Courts, an improvement which will not only place cheap and prompt recovery at the lender's doors, and thus cheapen credit to the borrower, but will develop the importance and therefore the power of work of the Courts themselves.

The borrower finds " safety " only when the lender has no interest in his entanglement. The history of private money lending throughout Europe declares that such entanglement, whether intentional or otherwise, is general, and it is absolutely certain that, in myriads of cases, such entanglement is deliberately promoted for the purposes of private greed, whether such greed be for money, for land or for power. Such is equally the lesson of Indian money-lending. Apart however from deliberate entanglement or fraud it is certain that the embarrassment of the borrower is habitual when the lender is an individual; the rates of interest are so high, the terms of repayment so unsuitable, that the borrower who once enters the net of the money lender seldom extricates himself save at serious loss. But in the case of banks, the borrower has the advantage of absolutely fixed terms; the original contract is probably equitable and the conditions as to interest and repayment as suitable as they can be made; these are rigidly adhered to, so that the borrower knows precisely, so far as his dealings with the bank are concerned what engagements he has to meet, what payments to make; the bank has no interest in exploiting its client. Still more is this the case when the bank is of the co-operative class in which men and not money are the objects of association; the interest of the individual borrower is the interest of the bank, since the mass of borrowers is also the mass of members while the main principle of co-operative association is the promotion of production, thrift and mutual help among members. Hence it is clear that the safety of the borrower is promoted by banks of all classses, but chiefly by those of the co-operative type. Not only so, but since the bank desires simply a larger extension of its loan business, and not the acquirement of the property of a few people, and since its range of operations is necessarily wider than that of the individual lender, it looks to the use made of the loans as an important item in its security; hence the promotion of a productive use of loans rather than mere wasteful outlay. This is still more the case with the co-operative form of bank, for since the increasing welfare of its members is its particular *raison d'être*, the productive use of its loans is in all cases urged upon members, who are deliberately dissuaded by precept, by example, by the occult as well as by the direct influence of associations of mutual help formed by the better and more prudent class of industrials, from borrowings which tend to embarrassment instead of to development.

Postulates of particular classes of credit.—Agricultural credit in general is long term credit; amongst its shortest needs are those for seed or for maintenance during the growth and sale of a crop; these needs can hardly be satisfied by a term of less than six months. Should the loan be for the acquirement of stock, for the purchase of expensive implements, a term of three years is none too long, since the loan can only be replaced from the profits of the stock. These profits being those on the working capital, are usually larger than on the fixed capital, while the loan is usually comparatively small; hence the replacemen of the loan amount is possible in a moderate period. If, however, the loan is for the purhase or improvement of land, the whole loan capital is permanently sunk in the soil, and can only be recouped from the annual profits which in all countries are known to be but moderate; so also if the loan is to be employed in the building of a house, or in the education of a son. In such cases it is only possible to restore the borrowed capital by petty instalments spread over a long series of years; it is an absolute impossibility to repay the loan in lump and within the period of two, three, or even five years such as is usually allowed by the private money lender. But the special features of the banks which deal with agricultural credit are the length of their credit, and the method of amortization, features which are entirely wanting in the credit usually granted by money lenders to agriculturists.

Resumé.—Credit then, such as is the subject of this study, is not mere credit or merely cheap and facile credit, but safe and productive credit. It is divisible into three great classes, Real Chattel and Personal, and is applicable to a considerable variety of objects from a mere advance upon an existing crop, to the execution of a permanent improvement of the soil. For the due provision of such credit there are demanded as postulates, proximity of lender and borrower, security to the lender that his loans are solidly and safely based on unencumbered property actually owned by the borrower, that they will be repaid with punctuality and strictness, that dues and arrears shall be readily recoverable: facility and safety to the borrower so that on the one hand he may be able to borrow freely promptly and cheaply and to repay conveniently, and that on the other he may not only be free from the risk of unforeseen entanglements, accidental or deliberately promoted, but may be influenced and even guided towards the safe and productive use of the credit granted. These postulates can seldom if at all be realized under the present money lending

system; the money lender is indeed in close proximity to his clientèle but his relations are not sympathetic though necessary; his loans are expensive since, altogether apart from greed, fraud, custom and monopoly, he can only draw from limited funds, and in the recovery of his loans he cannot be trusted with summary and extended powers; the borrower obtains credit at his doors, but it is neither cheap nor sufficient nor altogether safe, nor can it be granted for sufficiently long terms nor repaid at convenient intervals; still less is there any attempt to direct the borrower in the safe and productive use of credit. On the other hand these postulates are satisfied by banks which draw in idle hoards from large areas, and thus while developing thrift and providence, exercise an extended credit, which, for its own sake, is usually based on the productive use of its loans, and, in its co-operative form, is deliberately and intentionally directed towards that end and towards the development of its clientele in thrift, prudence, productivity and mutual help.

The province of the State in credit.—It is believed by some economists that the State should interfere directly and fully in matters of credit, especially in the provision of organized credit; its importance is such that, it is argued, the State should intervene as in a matter of primary national welfare, and the argument is pointed out by allusion to State action in the matter of communications, such as railways, roads and the Post office, of the currency, and the like; the State in fact, especially in Europe is daily intervening more and more, as for instance, even in England, where the Post office deals directly with matters of national thrift in all its branches, savings, insurance, investments, &c., while in Germany yet further advances are made in the matter of compulsory thrift and providence, and in other directions which savour strongly of a tendency to State socialism.

The argument is unsound; in the first place communications are not necessarily or generally of State provision; railways, for instance, are usually of private (joint stock) promotion and management; while roads are usually under local boards. Secondly the currency and the Post office must obviously be the care of the State, for neither Societies nor private persons could regulate the one or carry out the functions of the other. Thirdly it may be doubted, whether the developed action of the Post office in matters of thrift, insurance and the like is a universal benefit, as will be shown, *s.v.*, 'Savings banks'; the habit of leaning on the State is a growing tendency, the maxim being forgotten that "no State can subsist where the people have once learned to hold it answerable for their prosperity," while the drawing up of all funds to the State treasury as in England, and the competition with excellent and long existing Trustee Savings Banks and Benefit and insurance Societies belonging to, and founded by, the people themselves, tend to weaken the habit of self-help which has been the peculiar virtue on which Englishmen have prided themselves. Fourthly, the history of rural banking shows that no State Bank has ever yet succeeded, except in very petty States, where the administrative staff is out of all proportion —relatively to large States—to the work to be done and the area to be covered by it, or where the communes are linked to the central organization by peculiar arrangements, or where the banks are not credit banks at all, but mere offices of issue of loans either upon the results of the enquiries of special commissions as in the case of the German rent charge banks, or upon the security of communal organizations which deal with all details, as in the case of the Russian peasants' land bank, founded to enable the ex-serfs to buy out the land settled upon them. There are no State banks in great States dealing with the continuous yet fluctuating credit required by a cultivating peasantry. Fifthly, it is impossible for the State to deal in credit; the problem only requires to be stated to bring its own answer. There would be in the Madras Presidency alone at least 5,000,000 annual borrowers requiring probably 20 or 30 crores of rupees per annum on loan, including half a million mortgages, and several million running accounts. The State could neither advance such sums, nor could it manage the enormous business, which would be far greater than that now managed with much difficulty by its whole land revenue establishment; far larger because each loan means an enquiry into status and security, and risky to a degree, because it would be impossible to enquire without immense cost and loss of time whether the security offered were sufficient or were otherwise pledged. Yet it must be remembered that this is what the establishment of State banks means; an enormous State-organized and bureaucratically managed ramification of credit agencies throughout the country, involving not merely an immense addition to the army of State officials and dependants, but a risk to the State revenues which no State other than an autocracy, responsible to no one for the use of its revenues, could possibly undertake. Even Prussia, in the days when Imperial absolutism was far stronger than at present, has never attempted State banking; the action of Frederick the Great in 1769 was merely to order his nobles to create mutual land banks with unlimited responsibility, State assistance being confined to a very moderate initiatory subvention and to general supervision; the Prussian Government masterful as it is, and anxious for the development of its peasantry, has never attempted to bring credit to them; it has never attempted in any way to relieve them from debt or to supply them with capital, although since the beginning of the century the prosperity of the farmer and the development of agriculture have been its professed aim; indeed in the preamble to the great Act of 1807, it is wisely stated that "it would surpass our means to relieve each person individually, and even if we could, the objects we have at heart would not be fulfilled."

The province of the State, at least in the present century, is not that of providing credit; its duty is to favour the establishment by the people themselves of a system or systems which shall provide facile and safe credit for the rural classes. The true office of

the State is to remove all obstacles which stand in the way of organizing such credit, whether they are popular obstacles such as those of ignorance, isolation and improvidence, or fiscal, legal, or executive obstacles; to impose all necessary restrictions upon recklessness, fraud, speculation, incapacity and negligence in the management of such credit, by due methods of supervision; to lay down the principles which should guide rural credit by means of a special law suggesting, promoting and governing the institutions which are to afford it, a law which shall not only guide the formation and inculcate the methods of the institutions, but shall impose duties in return for privileges. Such has been the work of the State to some degree in nearly every civilized country; in Germany the Commercial Code provides a very excellent law of societies, while special laws regulate Co-operative societies and land improvement banks; in Italy the law expressly favours Co-operative societies, land, agricultural and Savings banks; in France the 'Credit Foncier' is based upon a special law intended expressly to promote the formation of land banks; in England Building societies of various classes, Saving banks and land improvement societies are the subject of express and favouring legislation, and the United States provide, in the laws of the several States, suggestive and regulative legislation. Not only so, but in several countries there is executive assistance; in England the Registrar of Friendly Societies is the supervising authority for such societies and for Co-operative and Building societies; in Italy the Department of Agriculture, Commerce and Trade, is especially charged with the supervision of rural credit and thrift; in the United States there is usually a Commissioner or Board in every State for similar purposes, while all countries provide encouragement or assistance in one form or other, even if it be only, as in the case of the Savings banks of Prussia, by charging the Collectors (Presidents of districts) to encourage and aid the establishment of such institutions by all the means in their power. It is the duty of the State in all maters affecting the credit, thrift, providence and property of the poorer classes to take special precautions by legislative and executive supervision that such classes shall not only maintain their stability and independence, but shall be expressly stimulated and encouraged to take steps to provide, through self and mutual help, the institutions which shall furnish credit, promote thrift, develop habits of providence, and safe-guard property; "*aider á faire*" not "*laisser faire*" is the true method; true freedom of action depends not upon the abstention of Government from interference, but upon such interference as shall secure freedom of action, and the certainty that each man shall be able to reap and secure the fruits of his own industry.

CHAPTER II.—INDEBTEDNESS.*

The farmer's need for credit has already been discussed; it is desirable to examine the result on the farmer of this need. Probably nowhere in the world, except among the richer farmers of England, is sufficient capital owned by the farmer himself; even the English farmer, with the advantage of renting land largely developed by his landlord's capital and finding therefore only the working capital, is accustomed to borrow freely from his banker, whether for advances at seed time, for purchase of manure, for extra wages at harvest, &c.; this he usually does by a short bill, or, in Scotland, by a cash credit. But in Europe where small and medium cultivation is the rule and where the farmer so frequently owns the land he tills, the bulk of the farmers are in debt and that heavily; the necessary complement, in fact, of the peasant proprietor is the money lender. There is little or no waste land, so that all land has to be bought or inherited; the purchase price, owing to severe competition and love for the land is extremely high, returning only a small percentage of the most diligent labour †; succession duties ‡ are very severe, amounting often to 11 per cent. Under the law of equal partition among heirs, it is necessary, since many estates are too small to sub-divide, for one of the heirs to take the property and pay the value of the shares to the co-sharers: this money he raises by a mortgage at heavy interest. Hence the land itself is a very costly article and absorbs in its mere acquisition, often far more than the peasant's available capital, which is supplemented therefore by heavy mortgages at high interest. Again, owing to the pressure of population, intensive cultivation with its expensive implements, manures and methods is necessary; this demands a large working capital (capital d' exploitation) while the incessantly increasing taxes, imperial, provincial, and communal, whether on the land itself, on the houses, or on succession, registration, &c., continually involve greater expenditure. Losses moreover are very frequent; abnormally bad years are known in Europe as in India, while the diseases of the vine and silk-worm, the ravages of drought, excessive rain and hail, have caused incredible loss, § only to be counted in hundreds of millions sterling, all of which,

* The present chapter deals chiefly with indebtedness in Europe, with a mere reference to Madras; there is however, a brief discussion at the close of the chapter upon possible safeguards against indebtedness, whether in Europe or Madras. The question of indebtedness in Madras is dealt with in a later chapter.

† See text and foot-note, p. 11 *infra*.

‡ The State taxes on the transfer of property in Europe are very high. In France an ordinary sale pays 6½ per cent duty or £65 on a sale price of £1,000, a gift at marriage is taxed at about 3½ per cent. of the value if to a son, at about 7 per cent. if to a nephe and at 11½ per cent. if to a more distant relative or stranger; an inheritance is charged with succession duty of 1¼ per cent. if to a son and at rates up to 11¼ per cent. in other cases; the capital is arrived at in cases other than sale by multiplying the rent of real income of the estate by 25. The above are simply the transfer duties, and are exclusive of other fees, whether notarial or State.

§ For instance, it is stated that in France alone in the two years of 1879 and 1880, no less than 2,147,500 acres of vineyards were entirely destroyed by the phylloxera and frost. In Prussia in the three years ending 1880, 37 per cent. of the villages were, on an average, damaged, in many cases seriously, by natural disasters not capable of prevention, such as frost, drought, floods and wet, plant diseases, vermin, etc.

together with the loss of produce and heavy fall of prices for many years, has to be borne by the farmer-proprietor. Cattle again are very generally bought on credit and one of the most devouring forms of usury is that of cattle merchants and of those who lease out cattle to the farmer for breeding and fattening; the trade in cattle and the "bail à cheptel" are said to be more productive of usury (Viehwucher or cattle usury) than money dealing itself.

The heavy indebtedness of proprietors in Europe is not due to any great extent to improvements and developments; it is of long standing and originated long before the modern development of farming, which indeed has hardly reached the peasant farmer; *e.g.*, in France the mortgage debt in 1840 was £480,000,000 (12 milliards); in Germany and elsewhere, it was similarly very heavy, Dr. Mascher's estimate for Prussia alone in 1869 being above £337,000,000 and below £375,000,000, while in 1894 it is calculated at £500,000,000. The debt is chiefly the result of the laws of inheritance, and of the fact that the country is split up into an immense number of small farms, which are subject to heavy losses in bad years and too consequent borrowing at very high interest. The increase may be judged by the fact that in Prussia alone, with but 28,000,000 people, the mere increase to the mortgage debt in seven years (1886-1893) was £45,000,000 sterling (Commercial No. 3 of 1894) attributed entirely "to the bad harvests and to divisions of inheritance." The passion and necessity for the purchase of land in Europe is a general cause of indebtedness, and the inferior condition of the small farmer,—otherwise the 'crise agricole'—has been for many years subject of grave anxiety in all countries of Europe.

The above remarks are based upon the allegations of scores of economists and agriculturists not of England but of the countries themselves, and give only a very general idea of the position of the European farmer. It may be well to give a few details.

In France the total mortgage debt, wholly irrespective of all debts based upon personal and chattel credit, purchases upon credit of cattle, stock and farm necessaries or for family maintenance, &c., is known to be about £660,000,000 sterling, viz., 14½ milliards, *plus* the mortgage loans (2 milliards) of the Credit Foncier. The above estimate is made by most careful economists and financiers after allowing no less than £180,000,000 (4½ milliards) for mortgages discharged but not struck off the registration records from which the gross total of 21 milliards (£840,000,000) is derived. It includes, however, all urban mortgages and not rural only. In the department of the Garonne, a vine-growing tract, for which particulars are given in an American Consular Report, the *annual* mortgages were stated at 4.68 per cent. of the total value of the land; as mortgages are only given to one-half the estimated value, it follows that each year about 9 per cent. of the land is mortgaged, while, since the mortgages are usually for a considerable term, it follows that the bulk of the land is under mortgage. As a matter of fact actually existing mortgages amount in that department to about one-third the estimated full value and therefore to about two-thirds of the mortgage value of the land.

For Austria no complete data are available, but in only a portion of Austria—a comparatively poor country with only 160 persons to the square mile—the mortgage debts in 1888 were £160,000,000 sterling on *peasants'* holdings only, and the increase between 1867 and 1888 was 42 per cent. Of these debts the "number of cases due to the issue of warrants of execution" was 15.76 per cent. in 1868 and 31 per cent. in 1888, while the value of such cases was 4.34 in 1868 and 7.23 in 1888 showing a large increase in the Court-sales of small properties. About one-fifth of the cases and one-fourth of the amount of the debts were due to the purchase and inheritance of land even in this sparsely inhabited country

For Germany statistics are not available, but the burden is considered to be heavier relatively to values than even in France; in Prussia the debt of all the large estates together is put down at twenty-eight times the land tax and that of medium estates at eighteen times; for small estates the figures are not given. These are merely the registered mortgage debts, which in Prussia only, on landed property alone, were, in 1894 placed at about £500,000,000, and actually increased by £45,000,000 sterling in the seven years ending 1893. This increase is put down to bad harvests and other losses and the law of inheritance. In Prussia in 1886-87 the mortgages newly registered in that year alone were £31,200,000, while those paid off were £24,440,000; this gives at once an idea of the amount and of the rate of increase of mortgage debt (Mayet) it being remembered that, in Europe, most mortgages are of long term, those given by the Land Mortgage Banks being of thirty, or forty or more years.

In Sweden the indebtedness of peasant proprietors "has increased considerably within the last twenty years;" and also but in a less degree during the preceding twenty years; the increase is put down to the necessity for intensive cultivation, and to the increase in facilities for borrowing, and to the law of equal inheritance necessitating mortgages for paying off shares.

In 1893 a discussion in the Storthing (House of Representatives) of Norway gave a most instructive account of Norwegian peasant indebtedness. The mover of the debate, representing the richest agricultural district in Norway, declared that the landowners were falling deeper and deeper into debt; that their mortgage debts had risen from £9,000,000 in 1865 to £27,800,000 in 1893, exclusive of similar debts to Savings Banks and merchants; that altogether the mortgage debt was at least £36,000,000, while the landed property was worth (according to a correction by the Home minister) about

£44,000,000; hence that the proprietors only had an interest of about two-elevenths in the total value of the soil; that the bare interest on the debt, even at only 4 per cent. was equal to one-sixth of the value of the gross agricultural produce, so that the farmers, especially with falling prices and increasing taxes were in a desperate position. The causes of debt appeared to be the fall in prices, the rise in taxation, the want of practical agricultural teaching (*quære*, instruction in rural economy), the right or necessity of the eldest son to buy out all co-heirs on succession, and the "exigencies of more civilized life," apparently a euphemism. Practically the whole of the above debt was held by the Bank of Norway, the Land Mortgage Bank, and the Savings Banks—a striking commentary on the idea that banking credit will cure indebtedness. While the Minister of the Home Department considered the statistics "somewhat exaggerated," they were not seriously combated or denied, and there was "a unanimous agreement as to the present impoverished condition of the peasant proprietors of Norway." (Foreign Office, No. 282 of 1893.)

In Switzerland "the indebtedness of the peasant proprietors has increased to a very large extent during the last twenty years," due partly to a great rise in land values, giving the oppurtunity of making fresh charges (mortgages) on the land, partly to the laws of inheritance; it is extremely important to note the former reason, since it shows that even in countries of good education the peasant cannot refrain from pledging any additional value which the land may acquire. In Berne "the indebtedness of the peasant "proprietor has been steadily increasing for the last thirty years, the sales of their holdings "have been becoming more frequent, and there has been a growing tendency among the "agricultural population to migrate to towns or to emigrate beyond the seas." The "increase of debt in this Canton is enormous"; the capital value of the land in 1889 was £40,735,084 and the debts thereon £15,952,492 or 39 per cent.; the value of the land increased from 1856 by 65 per cent. and the debts by 128 per cent. In one division of the Canton the debts were 55 per cent. of the capital value, that is, practically the whole area was pledged to nearly its full mortgage value, since two-thirds of the estimated value is, generally, the mortgage value.

For Italy the figures are very heavy. On first January 1888, the registered mortgage debt bearing interest, was above £328,000,000, in addition to registered charges (hypothéques légales) of above £71,000,000; these latter are claims upon property not susceptible of interest, such as the dues for construction, supply of material, &c. The interest on mortgages proper is very heavy; "it has been contracted under peculiarly "onerous conditions and so heavily burdens the soil, as to form one of the chief evils from "which agriculture suffers" (M. Claudio Jannet); "often the interest on a loan representing only half the value of the land, absorbs the profit of the whole" (Inchiesta Agraria 's.v. Venetia.') The pages of Mr. Beauclerk ('Rural Italy') are full of the accounts of rural usury and indebtedness; so also M. E. De Laveleye in 'Letters from Italy'; and numerous others.

In Denmark the indebtedness has steadily increased for the last forty years, the increase being chiefly due to the "cost of purchase and the laws of inheritance." Indebtedness to the amount of 40 per cent. of the capital value is called normal, but it is now about 50 per cent. This is the value relative to the capital value, but the absolute amount is said to have increased six or even tenfold in the last forty years; hence, as in Switzerland, a greatly increased value of the land has been followed by a still greater burdening of that value. The similarity in the proportion, viz., 40 per cent. is also noteworthy. Now, since money-lenders and banks in Europe seldom advance money to more than half of the estimated value of the land, it follows that nearly the whole land is under mortgage when the mortgage amount is 40 or 50 per cent. of the value; this is a significant fact.

In Belgium the peasants are said to have grown poorer, the exceptions being those who are temperate, active, and thrifty to an unusual degree,—the figures are not however available.

It is to be remembered, *per contra*, that in certain cases this increase of indebtedness is due to better cultivation and to a pledging of the value of the land for improvements and for the mobilization of the capital sunk in the soil; it is not always an unproductive charge. Also that whereas the loans in former years were at usurious or at least heavy interest, the loans, at least in Switzerland, are now often at lower interest and are not necessarily, therefore, in all cases, a heavier *annual* burden. Moreover, while all mortgages are registered, releases from mortgage are not necessarily registered, while partial repayments are necessarily not shown. This, though allowed for in the French statistics, somewhat reduces the total burden. Again in Switzerland and in Prussia, it is a rule that the State land tax is reduced in proportion to the burdens (mortgages) that the land has to bear; hence it is not uncommon deliberately to keep an estate burdened in order to escape the tax, the proceeds of the mortgage being placed out at interest.

But for Europe, in general, it is certain that mortgage indebtedness has immensely increased during the last 20 to 40 years; that besides registered mortgage debts there is a great mass of charges in the form of "Hypothéques légales et occultes," *i.e.*, charges not bearing interest and arising from claims of various sorts and also unregistered debts; that there is also a very great amount of unknown and personal debt; that the debts are largely due to the fall in prices, to the law of inheritance, to heavy succession duties, to great losses in the matter of crops, vineyards, cattle, &c., and to the peasant "obtaining posses-

" sion of his holding at too great cost and exhausting the greater part of his credit in the " process. He thus has to commence farming without a sufficient working capital, and with no " reserve fund on which to fall back in bad years. " It is only in exceptional cases that holdings, purchased and worked on credit, can clear off their indebtedness by what they produce.* In exceptional places the peasant proprietor may hold his own without difficulty, but " when his resources are limited to the uncertain produce of a small " holding, his position, at best a precarious one, must become untenable when exposed " to the stress of bad times. " He must then part with his land and emigrate either to the town or to other countries. These latter remarks are quoted from a report upon Switzerland, but equally apply to Europe generally, and go far to explain the enormous emigration from Germany, Italy, &c.

The above is taken largely from Parliamentary Paper, Commercial, No. 5 of 1891, a paper drawn up from reports from the British embassies in Europe, which again are based chiefly upon local official information and are sometimes mere translations of official communications from the respective European Governments. Hence they have the stamp of authority.

A body of reports on the trade and credit systems of Europe, drawn up by the American consuls, state similarly that mortgages are general and very heavy upon landed property, *e.g.*, in the Silesian Province of Prussia, where the first land bank was started in 1769 it is said that " at least seven-eights of all farms, large and small, are mortgaged to a greater " or less extent "; in Denmark " the greatest part of the landed property is mortgaged " to an extent varying from one-third to two-thirds of its estimated value "; for Switzerland particularly, it is stated that credit is abused by reason of the facility with which it is obtainable. Precisely the same evidence is afforded by the various authorities who have written on the subject of Agricultural Credit (*see* ' Bibliography '). In few of them unfortunately, does agricultural improvement find any place as a cause of indebtedness except in so far as the pressure of population and foreign competition are forcing intensive cultivation, and, by consequence, the purchase of manures, machinery, &c. The European peasant is, as admitted even by his admirers and advocates, the most bigoted of conservatives; " routine " and his father's customs guide him as they do the Indian peasant, and it is a grave error to suppose that he, any more than his Indian confrère, is thirsting after credit with a view to " Land improvements. " The matter is of grave importance for if credit institutions are started in India in its present condition merely to grant cheap credit, with the idea that the ryot is sighing for capital in order to sink it in wells and permanent improvements, and higher cultivation, and decent cattle sheds and home steads, the error will lead simply to further unprofitable indebtedness. Even the European improvement in agriculture of late years is due much more to the teaching and example of the powerful agricultural departments of the State and to the admirable Agricultural Associations than to facilities for credit. By the example and instruction † of the one, and by the co-operative efforts of the other, the peasant is learning to appreciate and is now beginning to buy new implements, better seed, manure and so forth. What the European peasant, left to himself, requires in credit, is the means of buying land at any price, of paying off usurious debts, of finding cheap capital to pay off his co-heirs, of combating, by cheaper capital, the terrible fall in the prices of produce, and the continuous rise of expenses, rather than capital to be sunk in permanent improvements or invested in the higher agriculture.

No statistics and little information are obtainable regarding the debts under personal and chattel credit: these must be enormous, since the " Jews " of Europe play to the full the part of the Indian money-lender in making advances on crops and on general status in selling to the peasants cattle and goods at credit prices, while the poor, as everywhere, purchase all necessaries upon credit at very high rates. Further notice of this matter will be found below, in considering the action of the money-lender upon indebtedness.

To resume, the landed proprietors and tenants of Europe are deeply mortgaged, especially the small folk, who, moreover, have large debts on personal credit which are not easily calculable. These debts have increased in a greater degree than the value of the property, which, on the other hand, is far above that of fifty years ago. The causes of these debts which have long existed, though not in the same proportion, and to nothing like the same amount, are (1) the purchase of land on credit; (2) the operation of the laws of inheritance, by which a property is either split up amongst the heirs, or—as is usual in the case of

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* In his novel ' Les Paysans,' Balzac points out the evil effects on the French peasants of the passion for land, leading to unduly high prices; also to the miseries effected by the wiles and charges of the money-lender to whom the peasant resorts either for the price of the land or for a mortgage upon inheritance. One incident is worth quoting; a peasant and his wife have bought a piece of land, paying only part from savings and the rest by a loan; " His wife " went about collecting manure; early and late they laboured in their garden, forcing it, by heavy manuring, to bear " various crops, but without managing to do more than pay off the interest due on the balance of the cost of the land. " Their daughter, in service at Auxerre, sent them her wages, but, despite of their toil and her aid, they found themselves " on settling day without a red cent of the price." They gradually knock off all their little luxuries, and, like all peasants seized by the mania for property, their labours increased while even their necessaries decreased. The tricks of the money-lender are also described in the usual well-known fashion. The novelist, in other words, exactly corroborates the sober official reports. In fact, though the pictures are often coloured, and an exaggerated impression produced by crowding into one story and one locality all the evils and miseries that the writer knows of, the novelist, realistic or otherwise, English or Continental provides a useful, because often unintentional, corroboration of the economist or statistician.

† In France M. Tisserand, Director of Agriculture, has given fresh life to the State department as well as to agricultural education; as a single instance it may be mentioned that there are 20,000 demonstration and experimental plots (champs de démonstration et d' expérience) in France, scattered throughout the country in addition to the numerous agricultural stations, schools, farms, etc.; the total cost of the 20,000 fields is £3,400 per annum.

small proprietors—taken by one heir who pays his co-heirs the value of their shares, raising the sum by a mortgage on the estate; (3) great losses by season and disease; (4) a lowering of prices due to foreign competition in produce; (5) the weight of taxes, succession duties, previous debt. &c.; (6) the action of money-lenders; (7) facility of borrowing; (8) the necessity—due to the increasing pressure of population—for intensive agriculture with its attendant need for a larger working capital, (9) the social and individual defects of the people, *e.g.*, in matters of education, temperance, thrift, foresight.

Of the causes of indebtedness mentioned above, only those of the action of money-lenders and of the facility of borrowing, need further discussion for the purposes of this study. The first it is useful to discuss to show that the small proprietor everywhere, in his universal need for capital, is the prey of the money-lender and that while human nature is as it is, the money-lender cannot—if he wishes it—avoid entangling the peasant. The danger and the difficulty of the ryot in India is not singular; it is common to the small holder all over the world; and it is necessary to recognize this in analyzing Indian conditions and miseries, and in planning out remedies; we have in India no abnormal and unheard of misfortunes or conditions, but exactly the same difficulties, generally in a far less intense degree, as in Europe and even in America. If, however, we have the example of the European peasant's difficulties, we have also the history of the efforts made to help him, and in these, whether in success or failure, lies the lesson for us in India. The succeeding remarks are drawn direct from standard or authoritative European works or reports on rural economy, credit and statistics.

In France the great mass of the agricultural mortgage debt is held by private lenders and probably the whole of the personal credit rural debt. Now the money lenders are said to be frequently mere usurers; " very often they avail themselves of the misfortune of the " borrower; they trade upon his misery and ignorance; from the moral point of view their " actions are criminal," " they are frequently the ruin of the agriculturist. " The details of the transactions are well known; beginning with a simple note or bond, all the tricks of the trade are habitually and purposely resorted to, until the patrimony of the peasant is in the usurer's hands; in good seasons when the debt might be paid off, the debtor is not pressed for payment, but rather avoided; in bad seasons or on inconvenient occasions, the money-lender suddenly requires his money till the wretched peasant signs away his whole property.

The pages of M. Durand in ' Le Crédit Agricole ' may usefully be studied in this matter, and in an admirable article on ' Le Crédit Agricole in 1893 ' (' Le Correspondant,' June 1893), he says, " L'usure dans les campagnes françaises est infiniment plus " répandue qu'en ne le suppose. " His own original impression was otherwise, but " en " cherchant bien, en nous informant soigneusement, nous avons fini par apprendre que les " meilleurs de nos fermiers, et les plus riches cultivateurs de notre commune, empruntaient " chaque année des sommes plus ou moins importantes au taux de 10 pour 100. " If the richer classes of farmer are compelled every year to borrow at 10 per cent., what must be the rates *ordinarily* paid by the small folk, to say nothing of bad years, and unfortunate folk.

As for usury in cattle, it is equally common and wasteful to the ryot, and one great object of the new agricultural associations is to enable a peasant to buy good cattle on decent terms, instead of any sort of cattle at prices 50 per cent. above their value; it is common for a man to pay 700 francs for a pair of cattle which would cost only 500 for cash. " Too often " says one authority, " the peasant works not for himself but solely for the " profit of the usurer who has made him an advance; his cattle are bred and fattened " not for himself but for his creditor, so that the French peasant's motto might be Virgil's " 'sic vos non vobis, fertis aratra boves.' "

In Germany the picture is even more detailed and pitiful. For want of credit institutions over the greater part of the country, usury is almost universal and " from its pitiless " exploitation of the smaller agriculturists it is considered as a menacing social danger. " The peasant is " unable to take count of his pecuniary situation; " he keeps no books and cannot judge of the pecuniary result of a transaction, whether of a venture in cultivation, or of a loan from a money-lender; the result is that the rural classes " fall into the " clutches of men, who under colour of helping them, desire nothing save their ruin for the " profit of the lender himself; " these are represented as lying-in-wait for misfortune, and are as eager as vultures when there is a chance of prey. The story of their action, whether in loans of money, cattle or goods is everywhere the same, and similar to that of France; temptations, false accounts, the law courts, miserable cattle and bad goods at maximum prices; all these are general. It was the terrible misery of the peasants as regards usury and the " frightful and shameless " action of the usurers that led Schulze Delitzsch and Raiffeisen to the idea of Popular Banks or Credit Unions, the latter in fact regarding the usury question as the most important of the then social problems. The latter, in his first burgomastership, found his charge (Flammersfeld) a scene of poverty and usury; the " cultivators " seldom had cattle of their own, but borrowed them from dealers whose terms they were forced to accept on penalty of losing the cattle, and the dealer was thus able to extort " the whole value of the worth of the cattle, while the misery of the peasant " increased yet more and more "; (see chapter on ' Popular Banks ') elsewhere the money-lender was so powerful that the produce was often handed over bodily to him on his own

terms; he then —again on his own terms—supplied food and seed, often of bad quality. A year of excessive rain or drought is the money-lender's opportunity, and very pitiful tales reached the writer of this study of the action of the " Jews " in parts of Würtemberg in the drought of 1893. The societies of social economy and of agriculture, the State Assembly, the public journals and individual statesmen, lawyers and economists, have made special enquiries and studies of this subject, which is described and discussed, in much detail in a recent Congress of the Society for Social Economy (1888) (Verein für social politik), and in a debate in the German Parliament of the same year. In fact, in 1880, Germany enacted a most severe law against usury, and Austria has followed that example in 1881—a fact which in these days is remarkable and significant, seeing that the law was passed upon careful enquiries and reports. This law provides that judges shall examine all cases where usurious interest or transactions are brought to their notice, and shall determine upon a consideration of the facts and circumstances in each case, whether usury has been practised, their judgment carrying with it a fine and imprisonment. This law has been amended by a law of July 1887.

In Italy usury is still more rife and the accounts given by Italian, English, and French economists and observers, by the great report of the " Agricultural Commission " and by numerous writers, are very harrowing. The pages of De Laveleye and Beauclerk are open to the English reader; in French and Italian writers most extraordinary usury is mentioned in detail. Five per cent. per month for usury is common; in one village, where M. Wollemborg established a credit institution, interest varied from 20 to 200 per cent.; in another the little bank started by the same philanthropist successfully lent money at 6 per cent. to pay off debts with the usurers on which 30 to 100 per cent. was being paid, the successful action of the bank showing that the peasants were paying usury and not interest. Signor Levi mentions rural usury up to 730 per cent., *i.e.*, 2 per cent. per diem. Maize for food to the cash value of 12 francs was in one village supplied to the wretched peasant by the usurer on consideration of his paying 24 francs in three months or at the rate of 800 per cent. and the maize was often of bad quality such as causes the Italian scourge known as the " pellagra "; in this village the mayor alleged that the peasants " often had to pay the fabulous interest of 1,200 per cent. " Small wonder that, as it is said, a man who has 2,000 lire (£80) of ready money (and a hard heart) can live on its proceeds. In fact, in Italy generally, the peasant population and small farmers are the prey " of the most frightful and shameless usury, " to the cash terms of which gratuitous labour (corvée) and a dinner on Sundays, presents of fruits and vegetables, and other services, are not infrequent though unexpressed additions.

As it is not intended to describe the condition of Europe except in so far as to draw lessons for India, it is needless to go further in this description, which might however for the countries mentioned be indefinitely extended with the most precise details. Is it likely, however, that the Indian money-lender and peasant farmer are on very different terms? Now, on this point, there are two opinions, one of which regards the money-lender as, on the whole, rather benificent and kindly; a sort of partner with the ryot, supplying the needs of the latter, and maintaining him in times of misfortune. Others again regard him rather as a beast of prey, seeking everywhere whom he may devour. The truth, as usual, probably lies near the middle; as society and credit are at present constituted he fills an absolute gap and is a rural necessity; on the other hand, he is most undoubtedly an expensive and dangerous necessity. He has been found in India from time immemorial, and Munro in Madras and Mountstuart Elphinstone in Bombay give pictures of the rapacious and enslaving action of the usurer, the misery and bondage of the ryot, at the beginning of the century, precisely similar to those of Europe and of Southern India at the present day, except that land mortgage was then unusual, since land had little or no value. He is still a useful person, without whom, until replaced, the ryot cannot get on; all that is now to be said is that it is time to replace him by a more developed system.

The other cause of indebtedness requiring special discussion is that of facility in borrowing, in which will be considered the effect of facile banking credit. Cheap and ready credit without due safeguards in the prudence of the peasant is expressly mentioned in the reports, &c., as a cause of indebtedness in Europe; debt has increased more rapidly than the value of the land; easy credit has meant reckless borrowing; an " unearned " increment " due to a general rise of prices, to a greater demand for land, &c., has usually been discounted by the owner, whether large or small proprietor. A few proofs will be given those countries being selected where the action of banks is particularly well marked, amongst which will be specially noted Switzerland, a country often quoted as an example both in the organization of its credit, the industry, education and prudence of its people, its methods of local Government, &c.

Switzerland, for about 3,000,000 of people, has about 900 banks of all sorts; it may be said that there is a bank for every village, and the Federal Department for the Interior expressly states that private " capitalists are no longer of any importance as lending agents, " the Mortgage and Savings Banks being now (1891) almost the only sources from which " the landed proprietor canborrow. " (Commercial 9 of 1891). The result is that " borrowing has now been rendered easy for him; too easy indeed perhaps, for the indebtedness of " the land cannot go on increasing without seriously endangering his position; it is only " in exceptional cases that holdings purchased and worked on credit can clear off their " indebtedness by what they produce. " (Commercial 5 of 1891). " Credit is here (Berne)

"carried on to such an extent that general prosperity is already injured thereby and will "probably be still more injured in future"; the real estate "is so heavily mortgaged that "in consequence of several years of partial failure of the crops the state of agriculture "is in a precarious position, the proceeds thereof being scarcely sufficient to support the "parties and enable them to pay the interest on their debts"; "credit is too frequently "demanded and too easily granted" (St. Gall), with the results of trade disturbances (Reports of U.S.A. Consuls on the credit and trade systems of Europe, 1884).

From these reports the following table is prepared comparing bankruptcies in this Swiss Canton, of no special importance, with those of other countries; statistics for the whole of Switzerland are unfortunately not available:—

State.	Population, 1881.	Number of bankruptcies, 1880 or 1881.	Population per bankruptcy.	Remarks.
France	38,000,000	6,966	5,450	Population is in round figures, that of 1880–1881 not being exactly known.
Germany	45,000,000	4,828	9,320	
Netherlands	4,000,000	747	5,350	
Italy	28,000,000	739	37,330	
St. Gall	228,000	636	359	

Ordinary (non-preference) creditors lost 90 per cent. of their dues by the St. Gall bankruptcies. The disproportion is extraordinary; doubtless the different bankruptcy laws account for a good deal, but not for such disproportion; every Court in Germany is a Bankruptcy Court, so that there is no initial difficulty in filing petitions.

The report further states that in the Civil Court of St. Gall in the three years ending 1881 an annual average of 48,824 claims were made; the great bulk was on unsecured debts, probably tradesmen's accounts; 34,620 or 71 per cent. were for claims below £4. If the report is correct, it can hardly be thought that this is a satisfactory result of credit amongst 228,000 people.

In Norway, where nearly the whole land mortgage debt is held by *banke*, it is estimated that only from one-sixteenth to one-fifth of the value of the lands remains to the proprietors.

In Sweden, where peasants are notoriously thrifty, the second of the three chief causes to which the great increase of indebtedness is attributed, is the increase in the number of country banks and the greater facilities thereby afforded for borrowing.

In Germany it has already been shown that the landed debt is increasing at enormous rates, to a great extent no doubt on urban property, but also largely on farms. In Silesia, the original home of Land Banks, the American Consul considers that at least seven-eighths of all farms, large or small, are mortgaged to a greater or less extent; the Consul at Dresden (Saxony) the headquarters of a very successful Land Bank, says that "it is rare to find "a piece of property, house or landed, free of mortgage." At Aix the Consul says that a very large majority of the real estate is burdened with mortgages, and judgments are in no way conspicuous by their absence. In Bavaria, where money is chiefly advanced by banks, "rural estates are often very much encumbered, and eventually are sold by "auction." This latter result has been touched upo in the section under German Land Banks [*q.v.*]; in Bavaria with 681,521 farms, no less than 6.686 were subject to forced sale by Courts in 1880.

Here then may be seen the results not of usury but of its equally dangerous opposite, facile credit. Usury provided a moderate amount of capital at burdensome rates; banking credit has substituted, in the same countries, capital at cheap rates, but has increased the mass of the burden. So far from banking, even on the most honourable and careful lines.—*e.g.*, those of State Banks as in Norway and Savings Banks,—being found a panacea for rural indebtedness, it has merely increased the gross burden; the specific gravity of the mass may be less but the volume is more than proportionately greater.

What that burden is may be judged by the following remarks: in Prussia the mortgage debt is £500,000,000 on 30,000,000 people or nearly £17 per head; in Norway it is £36,000,000 on 2,000,000 people or £18 per head; in Switzerland, Canton Berne has a mortgage debt of £16,000,000 on 538,000 people or £29 per head, this last country being amongst countries of small proprietors, more completely provided with banks than any in the world, insomuch that the individual money-lender is of no account. The statistics given above for Canton St. Gall are still more startling, if correct—and they are from a responsible publication—in their picture of the results of unduly facile credit.

A comparison may be made: the population of this Presidency is one-fifth greater than that of Prussia; hence, at the same rate of indebtedness, this Presidency would owe in land mortgages alone £600,000,000. Assuming that money is five times dearer than in Prussia, the true equivalent would be £120,000,000. As a matter of fact this Presidency owes about £20.000,000 (really 20 crores, 200,000,000 of rupees); hence Prussia is six times more heavily indebted by way of mortgages alone than this Presidency. If Berne be taken as the gauge, this Presidency would owe £1,056,000,000 or £211,000,000 after reducing money to equal values—or ten times the actual debt. This comparison is made not to minimize the weight of debt in this Presidency but to give an idea of the indebtedness of

European agriculturists in countries of small proprietors. Making various allowances on both sides, the rural debt of Europe cannot be less than several times the corresponding debt of this Presidency.

It is true that much of the mortgage debt of Europe is borrowed on far easier terms than the corresponding debt in Madras; not always so, for land banks do not reach the small proprietors in Prussia and France. That, however, is not the point under notice, which is, that in a certain state of education and civilization, cheap facile credit, though it may lessen the rates invariably increases the volume.

In Bombay this cause of debt is expressly mentioned by the Dekkan Riots Commission, and the idea has been frequently expressed by others that to give the Indian ryot class with their present characteristics the power of ready borrowing is simply to involve them deeper in debt; that is, that if money is available they will borrow as much as they can without thought of the day of reckoning. There is unfortunately much truth in this allegation, especially under the only available method of borrowing, viz., the temptations of the local money-lender, who has capital seeking employment and will not willingly leave it idle. What more easy for the ryot than to have an extra grand marriage or other ceremony, or to fight his neighbour about a field, when the money is ready to hand by the mere signing of a bond, perhaps a simple debt bond or the mortgage of one of his fields. How easy to avoid dunning notices from the Tahsildar or landlord for the assessment or rent, and thus save his public credit, by simply letting the cotton broker or other intermediary, pay it for him on his mere signature to a chit agreeing to deliver so much cotton or wheat at harvest. How creditable to give one's sons a University education when their bills can be paid by an occasional loan from the money-lender, and the ancestral estate can be transmuted, by a mere mortgage, into a degree. There is grave danger in facility of borrowing, especially in the ignorant condition of the Indian ryot, and with his present characteristics. The highest praise that an intelligent Tahsildar could find for the Nidhis of this Presidency was that one could borrow Rs. 1,500 for a marriage at lower terms than Rs. 1,000 from a money-lender, and that it could be repaid by comfortable and easy instalments; what more certain, then, that even men in that position and, *à fortiori* those of less education and intelligence, will borrow the Rs. 1,500 rather than the Rs. 1,000 Great as are the benefits of the Nidhis, it is certain from the enquiries made for this report that men, in straits for money, have taken to crime and fraud, because they have so easily engaged in too large loans from the Nidhis without sufficiently counting their ability to repay. Lord Vernon has in the 'Nineteenth Century' recently pointed out the dangers of long term land improvement loans repayable by annuity, in that the ease of borrowing and of repayment has led, even for such loans, to the careless and improvident charging of estates; if this is so for such purposes, what danger must lie in easy borrowing for unproductive objects. The weight of the American farm mortgages, so readily obtainable from the numerous societies, is notorious. Hence facile credit is not an unmixed good; surfeit and starvation are equally dangerous.

Nevertheless, under the reign of modern ideas as to property, contract and law, there has arisen, necessarily, a facility in borrowing; property in land and its rights, individual freedom of action, equal status before the law, have been established for all, and facility in borrowing is a necessary sequence of them. Add that the habit of borrowing is immemorial, that the burden of debt is ancestral; that increasing communications and new conditions are opening up new sources of expenditure, begetting new necessities or ideas as to what is necessary; that population is enormously increasing; that property is consequently being more and more subdivided; that seasons are as precarious now as they ever were, and it will be seen that whether he likes it or not, the ryot is certain to borrow at one time or other. Hence the question is whether borrowing can be so facilitated that money will be cheap, and at the same time so safeguarded that ryots in general will not borrow except upon real necessity and to the extent of such necessity. There can be no doubt that if on the one hand ryots can get cheap money, and, on the other hand, can be prevented from using that credit recklessly and uselessly, a very great economic and social advance will have been made. It being then granted that facility in borrowing, *i.e.*, cheap credit, is in itself a good thing, it remains to consider the safeguards. Hence the question is (1) whether this safeguard can be provided by law, (2) whether there is any other method.

(1) *The legal safeguard.*—If the law declared land unsaleable it would most effectually safeguard the ryot from abusing credit by taking away real credit altogether and immensely increasing interest in all other cases. But a discussion of the saleability of land, *i.e.*, whether land should or should not be saleable for debt, would be in Madras at this day purely academic; whatever the practice in old India, or in independent States, a vast property in land has been bestowed upon the people, and with it complete transferability, on the faith of which immense transactions are daily taking place and are in vigour. It may be assumed that no change will take place in this direction, and there is, therefore, no legal safeguard available in this form.

It is possible that certain limitations might be put upon transfer, mortgage or subdivision, which would safeguard the ryot by limiting his credit, that is, his power of pledging his land. It is believed that elsewhere in India some such limitation is now being sought, but the discussion would pass the limits of this study, since many more considerations are involved than those of credit and its abuse. Nevertheless, it may briefly be mentioned that the subject is receiving growing attention from economists and agrarian

students by reason of the extraordinary development of the mortgage habit both in Europe and America. Take Prussia for example: before the well-known legislation associated with the name of Von Stein, the peasants had no mortgagable interest in the land; they occupied but did not own it, and the object of that legislation was, in fact, the substitution of allodial for feudal tenure; that was eventually accomplished successfully, and the Prussian peasant became absolute owner of his lands while the noble held his lands free of any peasant liens thereon. But the power of mortgage was granted from the beginning; in fact, the method adopted for freeing the peasant was that of commuting his dues into a rent charge or annuity, which might be capitalized at eighteen or twenty years purchase, this amount being advanced by a rent charge bank which took a mortgage on the land as its security. Add to this, that the land banks of Prussia established for nobles had, since 1770, set an example of the mortgage habit, so that the German peasant, hard pressed, for working capital, for taxes and for maintenance, readily adopted the same, with the result that Prussia which, at the beginning of the century, had but an infinitesimal mortgage debt, had in 1893 a mortgage debt on " landed estates and peasant holdings " of about £500,000,000 sterling, the debt having " increased by £45,000,000 since 1886 " (Commercial ? of 1894), while the statement of objects and reasons to a Bill of 1894 for the establishment of Chambers of Agriculture, states that one object of the new Chambers is to assist Government in initiating legislation intended to relieve the oppressive indebtedness of agricultural land in the kingdom, and to organize rural credit. It is obvious then that while the abolition of serfage and feudal dependence resulted in a free peasantry, the ability to mortgage the land without let or hindrance has resulted in the re-imposition of dependence in a much more objectionable form, viz., the dependence of the peasant on the Jew usurer, with the further result that the great agrarian problem now is not the liberation of the serf but the freeing of the freed peasant from the bondage of usury, to which end statesmen, publicists, economists and agriculturists are recommending protection, subsidies, land banks and other infallible panaceas.

In France the mortgage indebtedness is so great and the rate of interest so high that the French peasant can, in general, only live by a frugality and parsimony, and by certain family restrictions, which do not usually commend themselves to general imitation.

In the United States the statistics of the census of 1890 show that in many, even of the largest States, about half of the farms are mortgaged to their full mortgage value, that is one-half of their supposed market value, and that the rate of interest is nearly 8 per cent.

It is then clear that free mortgage is not without its dangers, and the example of Prussia is peculiarly interesting for Indian students, for it is exactly paralleled in this country where, on a sudden, an ignorant peasantry not only obtained absolute ownership of the soil, subject only to State dues, but, equally suddenly, found that land attain an enormous relative money value, owing to the fall in money, to foreign trade, to the development of communications and the like; a great development of the mortgage habit at once resulted, to be followed, as in Europe, by the cry for State aid, for the establishment of Land Banks, and the like.

It is easy to be wise after the event, and it is herein that the study of European facts is so important to Indian reformers and administrators, that it helps to give that wisdom which may come from national object lessons. It teaches at least that the agrarian problem is common to all countries and that it is not to be treated by any single panacea; what seems to be the cause of the disease is often only a symptom, and no radical cure can be effected by its removal; it may disappear only to break out in unexpected form and place. Abolish feudalism or even the landlord, and the money-lender appears; establish equal rights and, as a consequence, equal inheritance, and the mortgage becomes a necessity or the estate a mere farmlet; reduce overwhelming State demands and the resulting surplus is taken by the money-lender, or the small proprietor becomes the petty landlord with a pauper tenantry to establish banks and facile credit, and indebtedness may be far more than doubled, or the individual money-lender be replaced by syndicates of land-grabbers and dividend-hunters. The agrarian problem like the national or rather the human problem is full of unknown or undervalued factors; it passes the wisdom of man to foresee and to provide against the difficulties produced by ignorance, by want of forethought, by imperfect legislative and administrative measures, nay, even by what seemed and still seem, measures of justice, civilization and political progress, such as equal inheritance, the abolition of feudal services and inordinate State demands, the introduction of cheap communications, &c., through which the present agricultural crisis has arrived for Europe, and is beginning in India. Hence it does not necessarily follow that a limitation of the power to transfer or mortgage lands is necessarily an error in all conditions of society. Where a peasantry has learnt the full lessons of thought and prudence, the full use of credit and capital applied productively, where the conditions of society and the demands of the State are such as not to compel resort to the money-lender, the power to mortgage to the full can hardly be an error; in other conditions, it is possible that such power may only lead to undue indebtedness and to a degradation of the agriculturists and his art. At present however, this Presidency enjoys to the full and largely uses the power to mortgage and to transfer at pleasure, and the privilege is not at present likely to be wholly withdrawn, although the ryots are still in a state of comparative ignorance, although many of their characteristics are those of an infant stage of civilization, and although agriculture itself is comparatively unimproved and requires capital and additional knowledge; hence it is

necessary to ascertain whether the banks to be established cannot, while providing credit, provide also safeguards against too facile credit, too careless a use of it, and still further whether they cannot themselves be made powerful educative agents in stimulating the dormant powers of the individual and of the race. An attempt will be made in this study, to solve this question in the light of European experience.

There is a method which safeguards the ryot from the abuse of credit, by limiting the power of Courts to sell the property of debtors; under the Homestead Exemption Laws of most States of the U.S.A., the Courts are debarred from attaching or selling for debt the property of a debtor up to a certain area or value. This property, land, house, or moveables may be sold at pleasure by the owner, and may also be mortgaged, but the Courts are debarred from executing any process thereon, and in Louisiana the Supreme Court has recently decided that a mortgage is invalid, and that a private purchaser of such exempted homestead, takes it without encumbrances. Obviously mortgages on such areas are of little use, since they cannot be enforced by law, and it is said that the interpretation of these laws is extremely wide. This may partly account for the comparatively high rate of interest on mortgages in a country where capital, banks, and loan companies abound; the average rate in many States is, according to the recent census reports, between 7 and 8 per cent.* Such laws are doubtless of great social importance in protecting small folk from absolute pauperization; they prevent farmers and householders from coming on the State, provided they are industrious or provident in the least degree. But they obviously check credit and raise its price, and consequently, if it be necessary that a farmer should have cheap credit, owing to his lack of means, and the pressure of competition, as they are apt to throw him out in the race, and to prevent the development of the land and of agriculture by condemning large masses to solvenly and miserable cultivation. Should such restrictive laws be introduced into this Presidency it would be advisable to confine the exempted area to very small proportions, such as a cottage and garden, or field or subdivision of a field not exceeding 2 acres of dry land, and half an acre of wet land. In China every family owns a small *inalienable* homestead.

In some countries, however, the law, perhaps unwittingly, imposes restrictions upon borrowing, or, at all events, increases the cost of borrowing, in creating a certain legal disability for the peasant. In France, for instance, the peasant is, to a great extent, disabled from credit by certain restrictions; the chief of them is that he is not a " commerçant " or trader, and, as such, his bills do not come under the commercial law of procedure; the Code Napoléon attempted to safeguard the peasant from embarrassing himself by making his debts recoverable by creditors only at common law in the ordinary Civil Courts. This is, as elsewhere, a very lengthy, costly and somewhat uncertain proceeding, and the result has been that the peasant has been not only safeguarded but fettered; loans are so difficult to recover that they are only granted on much higher interest than similar loans to " commerçants "; hence, as he was bound to borrow, his debts are an unnecessarily heavy burden. One of the most persistent agitations in France is to obtain the modification of this law, so that agriculturists may be placed on a common level with commercial or artisan borrowers. In Italy a recent law forbids agricultural banks to discount the paper of agriculturists of less than ninety days, échéance, restriction obviously intended to limit easy borrowing. In the Madras Presidency the power of the ryot to borrow and of the lender to recover, is governed by the ordinary civil law; it is a simple question of contract as regards the bargain and of a suit under the ordinary conditions and procedure as regards recovery. The question, then, in Madras as regards the borrower, is not the removal of any disability on his part, but whether the law should invent some legal restriction as in the U.S.A. and in Italy; on the part of the lender whether he should have any difficulties placed in the way of recovering his dues. The discussion of these points would hardly have place in this study; but on the first point the example of France is a sufficient warning that restrictions may make credit dear, but will not prevent borrowing; on the second it is clear that the sole effect would be a corresponding increase of expenses. It will, in fact, be seen that the true legal remedy is the grant of additional facilities for recovery, such facilities, however, being limited to credit institutions of a character recognized by Government as deserving the privilege.

(2) *Other safeguards.*—But whether law can or cannot be succesfully invoked to safeguard the ryot, is there no other method? Can a mode be devised of giving him cheap and easy credit, and yet of placing him under such conditions that he will be far less likely than at present to abuse it? The chief object of this study is to suggest that there *is* such a method; one of which will have all the merits of a proper system of credit, in its honesty, cheapness, proximity and elasticity, while it will be a real education to him in self-help, in self-control, and in business-arithmetic and methods. This method is that of Popular or Peoples Banks or Saving and Credit Associations. The several systems, which are not theories or paper proposals, but practical working systems of a most successful character, will be described in detail further on; suffice it here to say that in Germany, Austria and Italy, they are receiving deposits and distributing loans by hundreds of millions sterling

* It is curious to note the high rates of interest on rural loans in countries like France and U.S.A., where capital is generally abundant and cheap. M. Durand says 10 per cent. for fairly well-to-do proprietors in France; the census reports show nearly 8 per cent. in some of the richest of the Eastern States in the U.S.A. Both these countries have strict usury laws, by which the highest legal rate of interest is 6 per cent.; comment is needless on the inefficiency of that class of usury law in fixing interest.

per annum; that they are small, essentially local, mutual, autonomous institutions; that being cheaply administered and thoroughly solvent, they command and distribute cheap credit; that this being so, the local public are most anxious to become and to remain members who alone can borrow; that all members being borrowers *in esse* or *in posse*, a low rate of interest is more sought after than high dividends; that, being mutual, not only does all net profit return to the members, but they are united in common interests, and form a mutual check one upon the other; that being local, not only are they accessible to borrowers, but they command a complete knowledge of the *status* and crdit of the borrower while they are also able to enquire the purpose of a loan, to advise upon its desirability, to refuse it if the object is deemed unwise, to supervise the expenditure of it, and to prevent misapplication of it, through the fact that each member is perfectly well known to his co-members who are all of the same locality and can punish not merely by expulsion from the association, but by other social methods, any dereliction on the part of a member. These banks avowedly look as much to the use to be made of the loan as to the security tendered by the borrower; they consequently differ radically from those proposed agricultural banks which care nothing for the purpose of the loan and, therefore, for the effect on the borrower, but only for the security given. This seems to be the highest form of rural banking and the only safe method of granting agricultural credit; such credit can only be safely given for expenditure in certain directions, and it is not only legitimate for, but obligatory upon, an agricultural bank to see that loans are raised for and used only in such directions. The facts regarding indebtedness mentioned above, and the details contained in numerous European authorities, tend to show that cheap credit *per sse* is likely to be abused and that cheap money at will, may end, does end, in the mortgage value of the land being charged to its utmost extent, without sufficiently corresponding results in agricultural improvement, and even to the serious entanglement and depression of the farmer and of the industry; it is a grave economic and social error to allow a ryot to borrow at will for any purpose whatsoever provided only that he gives good security; on the stability of the ryot depends not merely the prosperity but the vitality of the country and his stability depends upon his power to obtain and use credit, not for extravagance but towards production. Restrictions, however, must not, in general, be either legal or executive, but social; they must proceed from the people themselves through associations, which imbued with a true economic and mutually helpful spirit by their best members, will gradually develop not only throughout the associations but in their individual members the habits of prudence, foresight, thrift and productive outlay. It is because banks have hitherto been regarded merely from the point of view of capitalists and shareholders seeking for profitable placement of their capital, that the security of the loans advanced and the stability of the bank have been the points primarily aimed at; the present proposals aim at establishing and safeguarding the security of the ryot first and of the loans afterwards; men are of more account than money and, after all, loans are safe just in proportion as the borrowers are prudent. Hence in the proposals to be made, the action and influence of the banks on men, and the controlled use of credit, will be discussed along with the usual consideration of chief and facile credit to the borrowers and of the security possible to the lender.

There is, then, a possible remedy for the evils of indebtedness, reckless borrowing and usury; there is no single remedy, any more than there is one cause; there is no panacea, no universal or simple cure for the evil of debt. But there is one of value and of comparatively easy application, viz., the development of credit associations, the advance from confusion to system, from money lending to banking, from individual to co-operative responsibility,

To use a Belgian description of the case—

Plus de capital sans banques;
Plus de richesse sans crédit;
Plus de force sans mutualité.

The development of the income and produce of agriculture is one remedy, but there is the converse remedy of assuring to the ryot the fruit of his labour, of liberating him from unnecessary exploitation, and of educating him through association in the use of thrift, foresight and credit.

CHAPTER III.—REAL CREDIT.

Following the divisions of capital and credit—real credit, chattel credit and personal credit—the first class of credit institutions are land banks.

Before discussing projects for India, it is advisable to examine real credit as elsewhere found; the errors, failures, successes of Europe, where the subject has been exhaustively debated and real credit institutions in operation for the last forty years, and for much longer in Germany, will assist proposals for India.

The original form of real credit in Europe as in India was the private money-lender system, in which the capitalist lent money direct to the borrower, usually at very high interest, on comparatively short terms and repayable in lump; the scarcity of money and the absence of all credit institutions enabled monopoly prices to be asked, especially as the needs of the proprietors, then chiefly the nobles, were pressing.

GERMANY.—The first advance was made in Germany (Prussia) in which country real credit is perhaps more developed than elsewhere in Europe. There are numerous types

of land credit banks, but they fall generally under three classes: (1) the Landschaften or Provincial land banks; (2) the new joint stock land mortgage banks modelled after the French Crédit Foncier; (3) institutions founded and guaranteed by the State, district or commune. Altogether there are at least 25 of the first species, 31 of the second, and 11 of the third. In addition to these there are the ordinary banks, the Savings banks and the Rent charge banks, which will be briefly mentioned at the close of this sketch; the life insurance societies also place an immense amount out on mortgage.

History and description.—The first class, or Old Landschaften, are the result of the indebtedness of the nobility; the needs of this class were so urgent that Frederick the Great at first ordered, by a simple administrative decree, the suspension (moratorium) of all interest on estate debts for three years, a decree subsequently extended for a further period. This, of course, led to the withdrawal of capital from agriculture and the rise of interest to a ruinous height; the consequence was such distress that the Government was forced to take further steps, the chief of which was the establishment of a land credit bank under the suggestion of a Berlin business man named Bühring. The first was established in Silesia in 1769 by the simple fiat of the King, and was an association in which all the nobles who held land in the province were obliged to join, whether they wish to borrow or not, all their lands being held eventually liable for all loans guaranteed by the association for its members. This extraordinary and forced security was but little dangerous, since no loan was guaranteed except with the consent of its elected directorate—a consent which was only granted if the borrower's property amply secured the loan; on the other hand, the mutual guarantee gave an immense credit to the association. Altogether five of these associations were formed, and existed almost alone from 1769 to the middle of this century; they were strictly provincial, each occupying a province in area from about 8,000 to 15,000 square miles, or that of one or two of the larger Madras districts. The forced guarantee of all estates has now been relaxed and only the estates of borrowers are now considered responsible in most, if not all the Old Landschaften. At first the association merely played the part of intermediary, and found a lender for each loan; a specific property was pledged to a specific lender for a specific sum and the association simply added its guarantee that the property amply covered the loan, and that the interest and principal would be paid according to contract; the lender and borrower, dealt with one another, and were responsible to one another, but through the mediation of the association. The practice was for the borrower after satisfying the association of his security, to execute a mortgage deed to the association, which then issued its own debentures (Pfandbriefe); these, however, recited this particular property as their primary security, to which was added the tacit guarantee of the association. These bonds—payable to bearer—were then transmitted to the borrower, who cashed them in the money market probably a good deal below their par value; it was not cash that he received, but paper of varying value. The chief defect of this advance on private lending was that there could be no amortization of the debt; the annual payments were made direct to the bearer by the debtor, and since the creditor would not accept payment of the capital in driblets, the payments were for the interest only. The debt was usually for an indeterminate period, and the principal, which was repayable in lump, could be called in by the holders of the debentures on a few months' notice.

Another grave defect was that the borrower was still limited to a narrow circle of lenders; no one who lived far from the borrower cared to take up the loan, for though the association was ultimately responsible, it required that in case of default or delay, the lender should address the borrower first, and this led to much delay and expense unless lender and borrower lived close together.

Further developments consequently took place. The first was that the association undertook to receive the interest on the loans and to pay it to the respective creditors, viz., the holders of the bank's debentures, which were still issued against the respective properties; in case of default the bank paid the interest due, and then proceeded at once against the defaulter by the special and summary procedure which the law had provided for it.

A second development was the formation of a reserve fund in cash; up to that time there had been neither capital, nor shares, nor reserve, nor dividend; a guarantee reserve was now formed from an additional charge made to borrowers.

A third development was the extension of aid to landed proprietors other than nobles, either by the direct action of these associations, or by subsidiary associations founded by the original land banks. The East Prussia Landchaft admits all rural properties of a certain minimum value; that of Silesia issues a special series of debentures, secured on mortgages of peasants' estates, and guaranteed not by the general credit of the society, but by a special guarantee fund accumulated from the contributions of the borrowers. The other three have founded branches separately administered and of the nature of the New Landschaften.

The fourth and chief development was the passage from the position of mere intermediary between persons lending and borrowing directly and on a specified property, to that of a mortgage bank, borrowing from the public in general by debentures secured on the mass of its mortgages, and not upon particular estates, distributing this amount in loans, repayable not in lump, but by annuities, receiving from its debtors the interest and amortization amounts, and themselves repaying the creditors, that is the debenture-holders. Hitherto a lender had simply lent to a borrower upon a specified property, the association merely acting as intermediary, and adding its guarantee; henceforward the association

became the actual creditor of the borrower and actual debtor to the public, from which, by means of its debentures, it drew capital, which in turn is distributed to borrowers. Hence the borrower now had for his creditor the association now become a land bank; the bank had for its creditors the public in general who held its bonds; the creditors of the bank had as their security the credit of the bank, which was based primarily upon the whole mass of mortgages which they held, and secondarily, upon the reserve of the bank and upon the whole property of all the members of the bank. In other words the regime of the individual loan upon a specific pledge has passed into that of joint stock operations and securities. This is the present position of these Landchaften.

The *modus operandi* is as follows; the land owner presents his demand for a loan, his title-deeds are inspected, his property valued, a loan, repayable by annuity, agreed upon to one-half or two-thirds of the estimated value, and a mortgage deed executed and regis tered; the bank then issues its debentures, either handing them to the borrower for sale, or selling them itself and paying their proceeds to the borrower; the face value of the debentures exactly represents the loan,—any premium due to a good market (Kursgewinn) being credited to the reserve,—so that the mass of bonds issued to the public represents simply the value at any time existing of the mass of mortgage loans granted. The mortgagor at the specified period pays into the bank the interest and amortization amount due on these loans; the bank carries the payments separately to the heads of interest and amortization, and with the accumulated masses of the latter, received from its hundreds or thousands of debtors, it pays off forthwith an equivalent amount of its debentures. Thus, if a thousand loans are granted for a total of a crore of rupees for an average of forty years, the debentures—of all sorts of amounts including many of very small value—issued to the public, will also be for a crore, and may be held by 10,000 or more persons varying in number as the paper changes hands; every six months the fixed dues which include sinking fund and interest, are paid in, the sinking fund beginning perhaps at $\frac{1}{2}$ per cent. or Rs. 12,500 and gradually increasing each half year as the principal is paid off, and as the charge for interest therefore decreases; this sum will be used by the bank in redeeming by lot, or by purchasing them in open market should they fall below par. The interest paid in by the 10,000 borrowers is, of course, carried to the interest account and the cost of administration is met by an addition of about 0.5 per cent. to the annuity, any profit being credited to the reserve.

Loans.—Every proprietor has a right to a loan according to the value of his property which should be free from mortgages, unless the loan is expressly intended to pay off old mortgages. The maximum loan granted is two-thirds the estimated value of the estate. The loan is paid to the borrower either in cash or in the bank's debentures. Interest varies from 3 to $4\frac{1}{2}$ per cent., to which is added $\frac{1}{2}$ per cent. for sinking fund and a contribution for expenses of administration, the whole forming an annuity generally below 5 per cent., by which the debt is paid off in forty years or upwards. All charges for enquiries and valuation, stamps, registration, copying fees, &c., are paid by the borrower. The debtor has the right of re-paying the loan at any moment on six months' notice, in whole or in part; the bank cannot demand such re-payment, but may attach the estate if it is deteriorating through mismanagement, or if the borrower is acting contrary to the agreement.

A sketch of the formalities which the experience of the Landschaften finds necessary before loans can be granted, will be instructive; it will serve to explain the reason why small loans cannot be or are not granted by such institutions, to remind the projectors of similar institutions of the difficulties in the way of granting small and cheap loans, and to show that the formalities and rigidity of rules complained of under the Indian Land Improvement Act are at least equalled, probably far surpassed by those of land banks, even by those which have no dividend to earn or capital to lose. The picture of the wealthy land bank readily pouring out millions in cheap loans is most attractive, and one if possible to be realized, but the dry details attending *each* such loan, the numerous precautions, formalities and expenses absolutely necessary to secure the bank, the disappointments of small holders, the rejected applications, the delays, are among the things which are forgotten because not seen. For this sketch the methods of the Pomeranian Old Landschaft, and the New West Prussian Landschaft will be chiefly drawn upon.

When a loan is required the candidate must present to the District Executive Board of the bank a petition with all necessary documents, viz., an extract from the land register (Grundbuch) of titles, a certified copy of the land tax register (puttah), a certified statement of the local cesses and charges, tithes, &c., on the land, and a sum for costs. These are examined by the Syndic (legal adviser), and if his opinion is favourable, a valuation is ordered. For this purpose a member of the District Board with the Deputy of the circle (taluk) and at least one agricultural expert, visit the estate; if small, only one Commissioner and an expert are sent; for each circle three such experts are elected by the District Council, and hold office for six years without the option of refusal; they must be practical agriculturists, since the farm management is one of the chief items to be considered. The Syndic or other officer may also be sent with the Commission. All members of the valuation Commission are paid daily batta or travelling allowance. Arrived at the estate, the Commission proceeds to inspect every item and method, to appraise the land, buildings, and farm stock, to ascertain if there is any boundary or other dispute, and to take any necessary evidence; the candidate is also examined and cross-examined in case of doubt, with extreme minuteness, and all is reduced to writing. For this examination a list of

fifty-nine heads of enquiry is entered in the rules of the New West Prussian Landschaft; it is applicable to proprietor and witnesses, who are sworn and liable to punishment for perjury in case of falsehood; among the personal questions, the examinee is asked whether he has ever talked with his neighbours on the subject of his evidence, whether he is in possession of his civil rights, or whether he has ever been punished for perjury, while the other fifty-one heads relate to the estate itself including every possible enquiry as to management, outturn, cost of labour, taxes, price of fuel, &c.

The fields, meadows, grass lands, woods, &c., are all valued upon a fixed scale varying according to zones mentioned in the rules. In West Prussia all arable land is entered in eight classes valued at from £1 to £12 per acre *plus* a percentage of from 0 to 40 per cent. according to locality; only the finest wheat lands are entered in the first class; in Posen the rates are approximately the same. Hayfields are valued in five classes from £4-10 to £14; ordinary grass lands from £6 to £4 per acre. From these gross valuations are deducted percentages for distance from markets, main roads or railways (2 or 3 per cent. per German mile), a further percentage if a field is below half an acre (West Prussia), and all tithes, charges, local taxes and other cesses, not including State or district taxes capitalized at twenty times; hence, if the average valuation of all lands in West Prussia and Posen be as high as £8 or even £10, the amount lent per acre at one-half the valuation cannot exceed £4 or £5. In Pomerania the lands are valued at about double the above rates. Buildings are valued, but are not allowed to exceed one-fourth of the value of the whole estate; in Posen buildings on "small estates not exceeding £3,000, (20,000 thalers) "in value, are not taken into consideration unless pucka (massiv in Kalk gebaut").

The Commissioners are responsible to the bank if their facts are incorrect, or their valuation too high, or based on a wrong application of the valuation principles. It is presumable, therefore, and is a fact that the valuations are generally well below market value. Their report is drawn up in detail and sent to the District Board Chairman, who appoints two Councillors to examine, each separately, the report with its data; they are always selected from the neighbourhood of the estate and are responsible for the correctness of their revision. The Board subsequently decides regarding the amount which may be lent and sends the papers to the General Committee, which, if necessary, calls for further information, and gives a final decision. The candidate has an appeal to the Special Committee against any of the proceedings of the lower officers.

When the amount of the loan has been settled, the candidate petitions the District Board, adding a statement of his ability to assure first rank to the mortgage; if no objection is found, the District Council (Board *plus* certain other Councillors) at their next meeting settle the amount of the loan in consultation with the Syndic The candidate then enters into a written mortgage agreement to be drawn up judicially, or by a notary, or by the Syndic; in case prior private mortgages are to be redeemed by the loan, the documents of such mortgages must be produced to the bank with the new mortgage deed, and on cancelment the deed to the bank will be executed. Thereupon the District Board signs and issues debentures which may be of various specified values from £3--15 to £150 each (the smallest denominations find the best market, showing that they are bought by persons with very small savings), and bear interest coupons for several years; these are issued to the borrower without regard to their price in the market, but the bank may, under certain circumstances, pay the full value in cash and appropriate any surplus (premium) to the reserve.

Under certain circumstances loans may be granted without special valuation, as where it does not exceed twenty times the *net* annual income assessed to the land tax (Grundsteuerreinertrag); this valuation was made many years ago, and is a species of settlement by which all lands were entered in classes of various productiveness, the cultivation expenses deducted, and the remainder taken as the assessable income. It is believed to be now much below the real net income.*

Such, omitting an immense number of details, are the steps found necessary in Germany before lending even on considerable properties. Since the risks attending a large series of small loans are greater than those attending a small number of large loans, since the enquiries must be equally careful and detailed and since therefore the expenses per loan must be equal and consequently disproportionate to the amount of the loan, it is easily entelligible that the Landschaften cannot ordinarily lend on really small estates, *i.e.*, on estates of less appraised value than several hundred pounds; exceptions can only be where the lands are close to the banks or their branch offices.

Results of Loans.—Some results of the loans given by the banks are somewhat surprising. Notwithstanding the extremely cheap and easy terms of credit—possibly the *result* of such terms—it appears by the reports that a very considerable number of estates are annually attached and brought to sale. In the East Prussian Landschaft, where interest is 3½ per cent., the total loans existing in 1891, 9,138 and the loans granted in 1891, 490, the number of forced Court-sales of mortgaged property was 50; of these 27 were on the

* According to the Prussian Agricultural Report for 1881-83, the cultivable area of Prussia is 63,171,196 acres, with 20,067,566 acres of forest. These are assessed to the land tax upon a net taxable income (Grundsteuerreinertrag) of £20,715,755 so that by this settlement the net income of 83,000,000 acres averages less than 5 shillings per acre! This, of course, in no way represents the average net income per acre, any more than the Madras Settlement assessments represent anything more than a conventional "half of the net." The point is of importance both in gauging the areas which can obtain loans, and the amount of loan obtainable; *e.g.*, a bank which may not lend on estates of less than £5 net taxable income can evidently not lend on an estate below 20 acres; if a bank lends without valuation at fifteen or twenty times the net taxable income, it cannot lend more than £3–15 to £5 per acre.

motion of the bank and 23 on the motion of other creditors. When loans average as they do in this bank considerably below 500 per annum (for the 9,588 existing loans were contracted for periods up to fifty-five years, the sinking fund rate being ½ per cent.) forced sales of 50 estates in one ordinary year shows that cheap credit does not prevent most serious embarrassments. Besides this, there were in 1891 no less than 22 estates under management, of which 10 remained under attachment at the close of the year. In Pomerania 10 estates out of 1,521 under loan were taken under management in 1892; the number sold is not stated. In West Prussia, with interest at 3½ per cent. there were 94 forced sales; in 12 cases the bank had to buy in the estates, and lost by the re-sales £20,598; the estates under attachment are not mentioned, but the advances made in 1892 for costs of managing attached estates were £7,686. In Kur and Neumark where the average number of loans per annum is below 50, there were five estates under attachment in 1892 and two were sold in 1891, resulting in a loss. In Posen with interest at 3½ or 4 per cent. the number of loans is not stated, but estates with 14,330 acres were under attachment, and estates of 9,621 acres were sold in the interests of the bank.

The figures are imperfect, but enough is stated to show that even under the arrangements of the Landschaften, where all properties are most rigidly scrutinized before being accepted for mortgages, where loans are only given to about one-half to two-thirds the *estimated* value, and where the interest and other terms of the loan are exceedingly easy, organized credit is not *per se* a panacea against total embarrassment.

Funds.—These, as will have been seen, are chiefly derived from debentures issued to the public, and secured upon the whole mass of mortgages held by the bank, and on the solidarity of the members. They can only be issued to the value of the loans granted and after registration of the mortgage; with this restriction, the amount which may be issued is unlimited. The bank has the right of calling in its debentures on six months' notice, but the holders of the debentures cannot demand repayment at will. Debentures are periodically (half-yearly) repaid at par to the amount of the aggregate payments to the sinking fund, the debentures to be repaid being determined by lot.

The bank has the right of buying up its debentures in the open market. The power given to the bank to recall or buy up its debentures enables it to dispose promptly of sums paid in in advance, &c., and, as the market permits, to exchange debentures at high interest for those at a lower rate. This matter of operation has been frequently resorted to with much benefit to the borrowers, who, as sole members, absorb all the profits. The debentures are issued at from £2-10-0 to £200 each, and are provided with coupons for several years' interest.

Other Funds.—These are (1) the working capital, (2) the sinking fund, (3) in some cases, a special fund for the guarantee of debentures issued against loans on peasants' estates.

(1) *Working Capital.*—This is now chiefly needed for the payment of interest due on debentures in cases where the bank's debtors are in arrears. This fund has as its nucleus the State subvention or loan, where such has been granted, but is chiefly due to the accumulation of the special contribution paid by borrowers for the expenses of administration. It is now generally so considerable that this contribution is no longer levied, the interest upon it sufficing for all expenses. It is usually invested in short term loans or well secured paper, and forms practically a substantial guarantee fund.

(2) *Sinking Fund.*—There are as many divisions of the sinking fund as there are series of debentures, and each division is sub-divided into as many accounts as there are loans. Each instalment on a loan is posted to its proper account and accumulates at interest to the credit of the debtor, the aggregate amount being utilized in a half-yearly cancelment of debentures belonging to the series. It is permissible for the debtor, as soon as the amount at his credit has reached a definite proportion of his debt—from one-tenth to one-fourth—to demand that his mortgage debt be reduced by that amount, and property freed in due proportion.

(3) *Special Fund.*—Only such banks as lend direct on peasants' estates require this fund, which is necessary, since the association, which, strictly speaking, exists for "noble" property only, does not guarantee such loans by the solidarity of its members.

Administration.—For the purpose of this section, the Pomeranian statutes of 1891 will be taken as a specimen; those of other banks will be simply alluded to. It is, however, impossible to give more than a rough outline, as the rules are very lengthy and detailed.

Under the State Commissioner, who has the general supervision and is the real head of the administration, are several Councils or Committees, viz., (1) the General Assembly, (2) the Select Committee, (3) the General Committee, (4) the District Committee, (5) the Circle (Taluk) Committee; all except the latter are considered as corporate bodies.

The *General Assembly* seldom meets, unless specially summoned by the State Commissioner or by the Select Committee; once in five or six years is usual. It is not, however, a meeting of all members, but only of the General and District Committees (Pomerania) and of a Deputy from each Circle (West Prussia). It is presided over by the State Commissioner, and is the final extraordinary Court of Appeal; it considers all matters of importance relating to the credit system, and reports its resolutions regarding changes in the statutes, for Royal confirmation. It is usual for the General Committee to draw up a special report for the General Assembly of the condition and management of the bank since the previous assembly.

The *Select Committee* (engere Ausschuss) represents the General Assembly, and performs the duties of the Council of Supervision, which will be found practically universal in the societies and companies of Europe; it meets once a year regularly, and as often as it may be summoned by the General Committee acting with the State Commissioner. It is composed of Deputies elected for the purpose, one by each District Committee from its own body, together with an Assistant Deputy and the Chairman of each Committee; these Deputies are instructed by their committees, but are not bound to follow such dictates. The Committee also includes the Syndic or legal and financial adviser of each Committee in turn. This Committee is the controlling authority both of the General and of the District Committees, and is the ordinary final Court of appeal in case of complaints; it interprets but cannot alter the statutes or impose fresh charges on the members. It is presided over by the State Commissioner, who has only a casting vote. All accounts must be placed before it, duly examined and certified by the several Committees, and it has power to call for all papers, &c., which it may desire to see. The annual budget must also be placed before it for approval. The Minutes of its proceedings are drawn up by the Syndic of the General Committee and submitted to the Minister; on approval they are issued to the districts for communication to members, and such part as is necessary is published. The members of the Committee draw daily allowance and the costs of travelling.

The *General Committee* is the executive authority or directorate of the bank; it consists of a Chairman, two Councillors and a Syndic; it appoints its staff, but cannot increase it without permission from the Select Committee. The Chairman and Councillors are elected by the District Deputies subject to Royal confirmation. The Syndic must be a lawyer, who has passed the examination for Assessor in the Courts, and is appointed by the General Committee in consultation with the District Committees; he holds office for life, and can only be removed as in the case of a Government servant under the Disciplinary Act (21st July 1852), or by forced superannuation under the Public Pension Rules. The Chairman and Councillors hold office only for six years. The paid staff are also appointed for life and are only removable as in the case of the Syndic.

The General Committee has authority over the District Committees, and its decisions are binding on them; it also hears appeals from members against their orders, and objections made against them or their individual members as regards administrative matters; a further appeal lies from the General Committee to the Select Committee, but no suit lies against any such decision made in accordance with the statute. They also superintend all money transactions and accounts, and arrange for periodical and unexpected audits and inspections.

The Syndic is the legal adviser of the Committee; his special duty is to examine from a legal point of view all matters relating to the security of the debentures, especially the titles and rights of borrowers and the correctness of all documents; in all the affairs of the bank the agreements and proceedings, such as mortgage deeds, releases, &c., which he draws up, have the validity and scope of those drawn by a Notary Public; if he is a High Court Notary he is entitled to retain the fees due to him as such; otherwise the fees are credited to the bank.

The *District Committees* are four in number, one for each district, within the bank's area of operations; as Councils (Kollegium) they consist of Deputies elected by the Circles and of the Executive Board; the Executive Board, which is part of the Committee, consists of a Chairman, two Councillors and a Syndic, with the necessary staff.

The District Board Chairman is subject to Royal confirmation, elected by all the proprietors of the District, who hold estates capable of being borrowed upon, and cannot refuse office, unless for reasons which, by the general law, would permit him to refuse a guardianship, or unless he has for six years held some office under the bank. Full rules are provided for election, and for the qualifications of the Chairman, who serves six years. His duties need no description, but he is especially responsible for verifying the cash balances by means of frequent inspection. He receives a fixed salary, with batta and travelling allowance when necessary; he must vacate office if he becomes bankrupt.

The District Councillors are elected similarly to the Chairman; they perform all duties assigned to them by the latter and receive a small salary, as well as batta, &c., for rural work. As members of the Committee they are present at all meetings; as Deputies (of the Chairman) they make valuations, institute attachments, &c., and as Controlling officers they look after the cash.

The District Executive Boards hold meetings whenever necessary and at least once a month; the detailed work of the bank is largely done by these boards which receive and decide applications for admission, examine the cash balances and accounts, arrange for valuations and transmit them to the Central office, issue coercive process against defaulters; generally speaking they do all the work which is not expressly reserved to other bodies, and represent the bank in the districts; in matters of importance, especially those not expressly governed by the statutes, they must consult the District Council. One of their chief duties is to watch the agricultural management of the estates of borrowers, and to prevent changes or disorders which might endanger the security held by the bank; the proprietor must inform them of any proposed change in his methods, and every member of the association and especially every District Deputy, is bound to report to the bank any observable deterioration due to bad management. If, after due enquiry, the Board issues

orders to such proprietor without result, or if the security of the bank is threatened, the Board are entitled to take steps to call in the loan or to attach the property, without the necessity of recourse to the Courts. Any person aggrieved by such order can appeal to the General Committee, which can dispose of the matter or order a fresh enquiry by other Deputies. A second appeal lies to the Special Committee, but, as in most cases under this statute, the order of the General Committee can be executed pending the appeal.

The District or rather Circle Deputies form part of the District Committee or Council, and are elected one for each circle by the proprietors within the circle; every member so elected is bound to accept office. The Deputies assist at the District Council (not at the Board), watch over the interests of the bank in the estates under loan, make valuations attachments, warn the District Boards of all deteriorations likely to endanger the interests of the bank, taking, in case of urgency, any necessary steps on their own responsibility, and perform all duties assigned to them by the District Board. One of their number is annually elected to the Select Committee, and the General Committee is also elected by them. They hold office for six years, and are paid a fixed salary of £7-10-0 per annum, with moderate daily batta, and travelling allowance when travelling for the bank.

The District Council is partly deliberative, partly supervisional; it discusses matters relating to the interests of the bank and of the credit system, but it also examines the accounts and affairs of the district, confirms valuations and loans, releases, attachments, &c., deals with the election of members and the appointment of employés, and generally decides all matters which the Executive Board refers to it. It meets by rule twice a year, and as often as may be necessary.

The *Circle (Taluk) Committee* consists of all members within the circle and meets at least once a year, and as often as necessary. The Deputy of the Circle lays before the members the accounts, the decisions of the Select Committee, and all important matters, general and individual, that have happened since last meeting; consults their opinion and invites resolutions in all matters requiring discussion and reports to the District Council. Elections are also held for the post of Deputy. In voting at these meetings only proprietors can vote (1) who are of full business capacity (*i.e.*, not incapable), (2) who hold estates entered on the land register, (3) who are of unblemished reputation (unbescholtener Ruf); it is noteworthy that these qualifications are not mentioned in the statutes in 1850, so that their entry is evidently the result of experienced necessity. Nor may any one vote or even appear at meetings who is in receipt of public relief or who is a bankrupt. Each proprietor has at elections only one vote in each circle, however many estates he may hold in the circle; in other cases he has two or three at most.

Status of the Landschaften.—Although associations of proprietors, they are quasi-public, each being regulated by a special law of its own, and supervised by the State: their office holders are under the disciplinary law which governs public functionaries. For instance, in the Pomeranian and East Prussian banks the four chief Committees are expressly established as public Corporations or Councils (öffentliche Kollegien) with the rights attached to such corporations by the general law; the documents is issued by them within their area of operations have the status and validity of public documents; and decisions (presumably against members only) issued within the limits of their statutory authority, are not amenable to legal question, and no suit lies against such decisions (findet der Rechtsweg nicht statt); any objection to the decision of the lower Councils goes to the superior and from the superior a final appeal to the Select Committee, or to the General Assembly which only meets once in several years. These provisions are comparable with those of the English Industrial and Provident Societies Act, 1893, section 49, which provides that disputes within the society shall be decided " in manner directed by the rules of the society, " and that such decision shall be binding and conclusive " without appeal " and " shall not be removable into any Court of law or be restrainable by injunction. "

The officers of the bank are also quasi-public (sind mittelbare Staats Beamte), and cannot be ousted from office except under the conditions and with the forms prescribed in the law of 1852 (public servants), by the other provisions of which they are also governed.

Privileges.—Except for the grant of a moderate subvention to the earliest banks, a grant due to the necessity for providing for the first expenses of an association formed cumpulsorily by the mere fiat of authority, and even against the will of the obligatory associates (Pomerania), and for the special procedure in matters of recovering dues, there are no considerable privileges granted to the land banks, while weighty responsibilities and duties are thrown upon the members. One land bank had the right of sending its letters post free, but this privilege has disappeared. They do not appear to enjoy any freedom from stamp duties or registration fees; income tax is not levied because the banks are mutual societies and have no real income, or dividends, having no shares or share capital. In the case of one bank the sale-deed for land bought in at a sale for arrears, is exempt from stamp duty if sold again within one year; if not sold within three years one-twelfth is charged; at the end of three years the whole duty is levied.

The banks, however, have one noteworthy privilege; *every member* must undertake *any* duty that may be imposed on him by the Directors, who have the power of fining for disobedience and enforcing their fines by distraint and other coercive process. In this way all the important and delicate work of a land bank is done promptly, cheaply and yet carefully; *e.g.*, the valuation of property, the attachment of estates, and the supervision of their

management. * It is usual to remunerate such delegates, but at a very moderate rate; *e.g.*, the person who is appointed by the Pomeranian bank to attach and manage as Supervisor (Curator) an attached estate, is paid annually two marks per thousand of the value of the property up to 75,000 marks, and one mark per thousand beyond that sum; £7--10--0 per annum and travelling allowance, for supervising the affairs of a property worth £3,750 is hardly excessive. So in Posen also, all members within a Circle are bound to attend the Circle meetings, and failure to do so without good cause on three successive occasions entails the loss of certain rights (cf. Italian popular banks). In Pomerania the District Deputies are appointed by the Circles (taluks), and no one may refuse the duty unless on such excuse as would be his warrant for refusing a guardianship of a minor; their duties are heavy; as deliberative officers they must take part in the meetings, and as Executive officers they make the valuations, initiate attachments of estates, and "carry out all duties entrusted to them"; for their Council duties they received lump sum of £7-10-0 annually and travelling allowance, and for their executive duties they draw when on duty a daily allowance and travelling charges, both on an economical scale considering their position. In the West Prussian Landschaft the following rules are found on this point; "every owner of a property within the area of its operations" is bound to take up the post of Director, Councillor or Deputy, if duly appointed thereto, nor can he decline the post unless he has already filled one of the offices for six full years, or is above the age of sixty, or holds a Government post, or has to administer as guardian, a three-fold property. The Landschaft authorities can completely enforce the taking up of office, for every member is bound to obey the behests of the authorities in every matter relating to the maintenance of the institution, under penalty of fine or other suitable means of constraint, which may be enforced by the attachment of the recalcitrant's property; if this is of no effect they may proceed to call in his loan, if any, on six months' notice, or to sell his estate in default. The defendent has the right of appeal up to the General Assembly, the decision of which is absolutely final, and the District Committee must always report in full to the General Committee, which is bound to make further enquiry and to call on the member for his defence. It will be remembered that from the decisions of the Bank Committees no suit lies.

The Pomeranian bank has similar powers of coercing its members should they refuse office or other duties, but the sentences of the bank are to be carried out by the Court having local jurisdiction (solche hat das betreffende Gericht einzuleiten).

The provisions of the East Prussian bank are similar to those of West Prussia, and provide that every lawful commission or duty imposed upon any member must be obeyed by them, especially those with reference to enquiry into a deteriorating property and the undertaking of valuations in the absence of a Deputy; fines for disobedience are imposed by the bank, and may be collected by the Bank officers without any application to a Court; and any other means of coersion that seem good to them may be used (oder durch andere ihnen geeignet erscheinende Zwangsmittel und selbst durch Zwangsverwaltung zu erzwingen): every Court, moreover, is bound freely to assist them when so desired; in the last resort the bank may sell the mortgaged property, but only through a Court, which however is not allowed to make any enquiry, but is simply to carry out the sale.

It must be remembered that gratuitous public services are expected from all men in England and Europe; in the communes of Germany, *e.g.*, in Hesse, every resident, peasant or otherwise is liable to be appointed to communal posts and duties which he is not at liberty to refuse or avoid, however irksome or inconvenient; there are also many communal duties and services which the inhabitants collectively may be called on to perform. These are generally or largely gratuitous. Hence it is not surprising that in the case of members of a land association in receipt of the valuable privilege of cheap loans, this duty is accentuated; in view, however, of the difficult and constant nature of the services demanded a moderate honorarium is now allowed.

The chief privileges, however, are those for the recovery of dues. The bank binds itself to the most absolute punctuality and certainty in the payment to its creditors of the interest on its debentures; this is in the interest of the borrowers, for debentures on which the dues are paid absolutely to date will command public confidence and consequently a ready market. To ensure this punctuality similar punctuality is required in the payment of dues by its debtors. Dues are payable on two fixed dates; on the expiry of those dates a list of arrears is drawn up, extracts sent to the local bank delegates, and these proceed at once against the defaulters. The general rule is that of preliminary distraint of movables, nor can the defaulter demand in preference the attachment of his estate. In West Prussia when the arrears are below £30, distraint of movables is obligatory; this may be made by the bank's own agent, or by demand of process from the local Court through its bailiff, and the Court is bound to issue process accordingly. When the arrears are above £30 it is necessary to attach the estate. In East Prussia and Silesia it is expressly

* Certain money-lenders in this Presidency avoid the cost of agencies and the risk attending mere paid agents by utilizing local knowledge as follows: a loan is granted to (say) a monegar, kurnum or other person of position in a village; this is allowed to run on till hopelessly heavy; the unfortunate debtor is then obliged to furnish trustworthy information *gratis* regarding all other would-be borrowers, and even to attest their documents, under penalty of being proceeded against; it will be understood that such agents are careful and, in a measure willing, while costing absolutely nothing. The necessity for trustworthy but cheap local agents is absolute in the case of non-local money-lenders; the German Landschaften, certain Swiss Land Banks (*e.g.*, Berne), the Russian Peasants' Land Bank, the Scotch banks and some Madras money-lenders seem to be alone in finding a successful method.

provided that the bank may collect its dues on mortgages by any coercive process open to them, "without any proceedings in Court" (ohne jedes gerichtliche Verfahren), and these coercive methods are distraint of movables, including any debt owed to the defaulter by third parties, attachment and management of the estate; the sale of an estate must always be through the Court. In Posen the local delegates must take with them a Court bailiff when attaching movables. In Pomerania a notice is first sent to the defaulter, followed in case of continued default, by distraint through a bailiff. In all cases it is strictly provided that no movables shall be attached which would hinder the working of the farm; cattle and stock, for instance, may not be attached if necessary to such working, but a milch-cow or an additional yoke of oxen might be taken; this corresponds fairly with the Indian Civil Procedure Code and the executive orders of the Madras Government in revenue matters. The sale of the distrained goods takes place by auction through the distraining bailiff (Pomerania).

When such distraint is insufficient or useless, the estate may be attached by the bank, and managers put in; in such case the owner is not allowed to interfere in the working of the estate, but all matters, including those of ordinary cultivation, or the leasing of land are conducted by the bank's nominee; for the management of such estates most elaborate rules are laid down. In Pomerania the attachment is made by a Councillor of the bank or by a Deputy assisted by the manager, or in case of any hindrance to the same, by a Court officer (Gerichtsperson), and a similar person or an ordinary member is at the same time appointed as administrator or supervisor (Guts-Kurator).

In Pomerania should it become necessary to sell the estate, the Directors, after taking the opinion of the District Committee, apply to the local Court which is bound to comply with the application, nor can it make any enquiry as to the merits of the application, which is sufficiently justified by an extract from the books of the bank showing the arrears claimed. The bank is recouped by the Court from the proceeds of the sale and no opposition can be made by third parties, unless when the bank has exceeded its powers or when the correctness of the claim is denied. The bank may bid at the sale so as to avoid collusive transactions, but if it buys, it must sell again as soon as possible (West Prussia). Other Landschaften have similar powers.

The bank is allowed to grant some delay, usually for six or twelve months, where the arrears are due to some cause beyond the debtor's control and not to his bad management; at the end of that time, all dues must be rigorously collected. In the Posen bank a condition is entered that the sinking fund amount shall be paid on due date, delay being granted only for the interest due.

The bank may, in all cases, pay up any arrears due by a defaulter, either from its reserve fund or by borrowing from a bank at the defaulter's charge; all costs, penal interest, &c., are, of course, debited to the defaulter.

Such are the main outlines of the powers of recovery given to the Old German Landschaften. The banks have also the privilege of demanding instant repayment of the loan in certain cases; in the New West Prussian Landschaft these are as follows:—

(*a*) when the estate deteriorates, so that its value falls below the minimum sum for which a loan may be granted;

(*b*) when the borrower does not pay his dues at the proper time; in this case the privilege ceases as soon as the defaulter pays up;

(*c*) when the borrower does not pay the public taxes and cesses;

(*d*) when the estate is attached or sold by Court;

(*e*) when the owner manages his estate so badly that, on examination by two experts, such deterioration is found as endangers the security of the bank's mortgage, and the owner fails to remedy the defects within a given time;

(*f*) when the owner does not fulfil his obligation to insure his buildings, stock and produce against fire;

(*g*) when the borrower does not fulfil the conditions of his contract;

(*h*) when he refuses to take up the duty of a Landschaft Commissioner, to which he has been regularly appointed and has not previously held the office. This last provision shows the importance attached to the undertaking of the bank's business by its members.

In the New Posen Landschaft the parallel provision is "where a member does not "submit to the lawful instructions (or appointments) of the Directors." Though these conditions are from the statutes of New Landschaften, they are equally applicable to the Old.

Supervision.—One of the chief privileges is the supervision exercised by the authorities. The Landschaften had, as has been seen, a quasi-Government foundation; the King gave the order which was based upon a perception of the political and social dangers arising from an impoverished upper class, and the proprietors were formed, even against their will, into a mutually responsible credit association. This origin, together with the ideas of the time and of the environment, and with the difficulties attending a new economic departure, implied State supervision which was accordingly, and still is, a very marked feature in the German Landschaften.

The Pomeranian Landschaft is a fair example. *Firstly*, it is based upon a law framed by the State, which serves instead of articles of Association, being very lengthy, and giving full details on all points, supplemented only by special sets of rules for particular operations, such as the methods of valuation. Consequently any alterations of the methods

of the Landschaften can only take effect after submission through the Minister of Agriculture to the Sovereign for approval.

Secondly, the bank is considered as quasi-public, and its officers come, therefore, under the law relating to the discipline of public officials.

Thirdly, the bank is placed under the general supervision of the Minister of Agriculture for all matters regarding the maintenance of the system as contained in the statute. The immediate supervision is with the Royal Commissioner, the appointment of whom is reserved to the King; in the German Landschaften this Commissioner is usually the Oberprasident of the province (Prefect, or Collector of the district).

This Commissioner is the head of the administration, and is especially bound to watch over the due observance of the rules and law; he presides at all general meetings, and at the annual meetings of the Special Committee, on which, however, he has only a casting vote. He is bound to see that justice is always done, and to arrange for and, if necessary, assist at audits and inspections. One of his special duties is to ensure an equilibrium between the mass of debentures and of mortgages. He has also, apparently, the power of veto where there is a departure from the rules; this is the case in the West Prussian Landschaft.

Fourthly, the Chairman and the two chief Councillors of the bank are elected by the Deputies of the four districts, but the election is subject to Royal confirmation. The election of the Chairman of each District Committee is also similarly confirmed. This is also the case in other banks, as in that of West Prussia.

The above sketch completes the history and general description of the Old Landschaften five in number. It should be noted that they were not started either for the help of 'Peasant holders' or for the development of agriculture, but solely for the relief of the 'Nobles,' who, next to the king, were regarded as the State, from the burden of their mortgages. Subsequently a few 'New Landschaften,' based upon the latter principles of the original five, were started but, up to 1850, there were only fifteen old and new together. All were associations of borrowers and not of lenders, with two exceptions in Bavaria and Hesse Darmstadt, where the associations were formed by capitalists. The chief difference between Old and New was that the latter lent on property other than 'Noble' of a certain minimum value, which, however, was high enough to exclude small properties. Moreover, membership in the new Societies is voluntary, though all borrowers must be members, and the liability may be limited or unlimited. Some, like the old societies, disburse in debentures the loans they grant; some pay the loans over in cash.

Up to 1850, however, in spite of the anxiety of Government, no more banks were started, chiefly, it is said, because Government limited the operations to those of land credit only. In September 1825 Government passed a law permitting the formation of real credit associations for peasants, giving them, with the sanction of the State, the right to issue debentures to bearer; this law contains the minutest regulations, but has been hardly put into operation. Government, moreover, started State or Provincial institutions for granting real credit, of which more hereafter.

But, in 1850, the question came more prominently to the front; in that year the Rent charge banks—hereafter mentioned—were founded. Government, moreover, entered upon enquiries which lasted for many years; congresses were assembled for discussion, and the literature became copious; projects were presented and failed, such as that of 1857, which was to favour the starting of land banks (cf. the French Crédit Foncier), issuing debentures and enjoying certain fiscal and financial privileges, as also special facilities for the recovery of loans, and the aid of the executive in obtaining information as to the security offered for loans. This was rejected by general consent, and a little later the Minister of Agriculture called another conference of officials, economists and business men, which ended in the usual recognition of the need for credit, and in the approval of the formation of associations of proprietors. The next discussion was by the Society of Rural Economy (Landes-Oekonomie-Kollegium); after much consideration this assembly formulated proposals in 1861, which added to the previous proposals that of subventions or guarantees by the State or province. Again, Government resumed its enquiries, and, in 1863, a fresh congress suggested tentative but abortive regulations, followed by proposals from various sources. In 1868 the North German Parliament issued a commission to examine afresh the subject of real credit, and the needs of agriculture, and to propose a scheme, which finally resulted in a Bill to favour the foundation both of associations of proprietors and of joint stock banks, which should carry on various classes of credit operations, including that of the pledge of movables, crops, &c. This was rejected as inferior to the Regulations of 1863, which were said to have arrested the development of land credit. Hence the Minister of Agriculture again moved the Landes-Oekonomie-Kollegium to formulate and tender their opinions, especially upon the subject of a State Central land bank after the pattern of the French Crédit Foncier. The Kollegium was so distracted by the various opinions which prevailed, that it suspended its sittings, apparently without offering any proposals. Finally, a fresh special commission was appointed by Government, which declared in favour of associations of proprietors, to be regulated by a new law, and against the proposal for a single and privileged State bank; they also recognized the utility of the new joint stock banks. The result was *nil*, save that the authorities veered round in favour of the usefulness of joint stock banks alongside of the Landschaften.

The numerous enquiries, congresses and commissions which had thus taken up the subject were the result of the increasing pressure of the demand for capital by agriculture. The competition of foreign countries, the pressure of population, the demand for higher-class produce, required an influx of cheap capital; hence these studies and enquiries; hence also the attempts to supply the demand, which resulted in the establishment by private means of numerous banks of the two rival patterns—associations of proprietors and joint stock companies—between 1861 and 1880. Up to 1861 there were 16 Landschaften, 10 State or provincial institutions, and 4 joint stock banks; in the two next decades these increased to 28, 12 and 35 respectively.

New Landschaften.—These institutions are of different patterns; several are annexes to the old societies, but most are independent and approximate to ordinary mortgage banks, except in this essential point that they have no share capital earning dividends; they are, like the old societies, simply institutions formed for the benefit of borrowers, to supply proprietors with capital on the lowest possible terms and repayable in the easiest possible manner; they are gratuitous intermediaries between the outside capitalists, and the borrowers, and, while performing services of the highest importance in testing the security offered by the borrowers, and in guaranteeing to the public the safety of the capital lent by them, they charge absolutely nothing for their services beyond a small commission, perhaps $\frac{1}{4}$ or even $\frac{1}{10}$ per cent. to cover actual expenses.

It is usual for each association to be restricted to a particular area of operation, within which every proprietor, whether noble or peasant, may obtain a loan if he can offer sufficient security; there is always a minimum limit either to loans or to the value of property on which loans will be given; this is usually low, *e.g.*, in the New Brandenburg Landschaft affiliated to the Old Kur-und-Neumark Landschaft, loans may be granted on property having a net income assessed to the land tax of only £5 (*see* sketch of this Landschaft); the minimum limit is seldom even approached.

Members are those who borrow from the bank; they are generally responsible in all their property not merely for their own borrowings, but for the debts of the society to the outside public; but in some cases only the property pledged to the society is responsible; in others they are bound, in case of need, to pay a sum proportionate to the amount of their own borrowing. There are no shares to be paid up except in two societies; these two resemble co-operative societies, for the shares are personal and non-transferable, are of unlimited number varying with the number of members, and their value is claimable by a withdrawing member; the share seems to be demanded simply to provide a first working capital, and the nucleus of a reserve; the amount of the share is frequently a certain percentage of the amount of the loan required. Some societies demand an entrance fee of a few shillings, which goes to the reserve; this reserve will be dealt with below.

Societies in general then, have no share capital; they do not lend their own funds; the candidate for a loan asks that debentures may be issued against mortgage of his property; this is then examined, and, if the security is approved, the candidate executes a mortgage-deed to the society, which thereupon issues debentures which are placed on the market, and provide the funds for the loan. In the old banks the debentures are simply handed to the borrower, who sells them for himself; in the new land banks either this is done, or the bank sells them and pays the borrower the value if below par, or if they sell above par, then the face value, the surplus (Kursgewinn) going to the reserve; or they simply issue debentures on the market and pay the borrower the amount of the loan as settled. It will be seen then that the banks have no capital and no need for it.

The debentures are of the usual class, secured not by the particular mortgage on which they are issued, but by the whole mass of mortgages held by the bank, and by all its other forms of security, viz., the property of the members, the reserve or guarantee fund, and even the sinking fund; in some banks a debenture-holder has the right—never needed however—of requiring a Court to assign a particular mortgage as the specific security for his debenture, should the bank fail to pay him his interest or capital due. A debenture-holder cannot demand payment of his debenture, except when it is drawn for payment; *per contra* the bank can call in any at six months' notice, besides withdrawing them by lot in the usual way. These debentures enjoy an excellent position, the 4 per cents. being usually at or above par, and since cheapness of loans is the sole object of the bank, it is customary to call in debentures selling at a premium and issue a fresh series at a lower rate; a few years age $4\frac{1}{2}$ per cent. was general, it is now $3\frac{1}{2}$ per cent.

Loans are usually applied for to the District Committee with a statement of the property, the loan required and all documents necessary to prove title and freedom from encumbrance. Properties may be valued by a special valuation, or a multiple of the net income, as assessed to the land tax (Grundsteuerreinertrag) may be taken; in both cases, however, an inspection of the property is necessary unless under a special rule (*see* 'New Brandenburg Landschaft'). Half to two-thirds of the estimated value is allowable as a loan.

The interest paid by the borrower on the loans is that paid by the bank on the debentures, the bank being merely an intermediary between the borrower and the actual lending public. But where the bank pays the loan in cash, it charges such interest as it thinks proper, in order to make up any loss should the debentures sell below par. Loans are repayable almost entirely by amortization, usually in about fifty-three years, but some few term loans are granted with corresponding debentures.

The bank cannot demand repayment of a loan except under circumstances already mentioned under ' Old Landschaften '; *per contra* the borrower is at liberty to repay in whole or in part whenever he pleases, but must pay the whole interest for the half-year in which he repays.

The loan is repaid by an annuity consisting of the interest, sinking fund—usually beginning at ½ per cent.—a contribution to the reserve or guarantee fund, and another for the expenses of administration. In 1882 the annuities totalled from 4½ to 6 per cent. —the latter in four cases only —*e.g.*, interest 4 per cent., sinking fund ½, guarantee fund ¼, and expenses ¼; some of the banks also required a lump payment on the grant of the loan at 1 or 2 per cent., to be credited either to the working or to the guarantee fund. The rate of interest is now universally lower, 3½ per cent. being usual; the New Brandenburg Landschaft will serve (*see* below) as a specimen.

The working fund is formed by the contribution made for the expenses of management and any special sources; it requires no further notice.

The reserve or guarantee fund consists of the contributions made *ad hoc*, of the penal interest paid on arrears, any fines, &c. It is usual to credit all such contributions to the sinking fund when the guarantee fund equals 5 per cent. of the debenture debt. In many banks, moreover, the contribution by a borrower ceases or is reduced after a certain number of years. Further, in some banks the reserve belongs to the members, the bank's risks are solely those which arise from its debtors, and it is therefore deemed equitable that when a debtor has paid off his debt he should be credited with what he has paid as a guarantee against any risks arising from his debt; it is usual in such cases to credit him with the amount for his last instalment.

The sinking fund needs little explanation. It of course comprises as many divisions as there are series of debentures; these again are sub-divided into as many separate accounts as there are loans financed by that series, and to each account are credited the payments made for its loan, accumulating at compound interest. In case of arrears, some of the new Landschaften enjoy, in common with the old, the privilege of attaching and selling the goods (only movables may be sold) by means of their own agents without the intervention of a Court, according to rules laid down in the statutes which govern them; in general, however, they follow the rules of the ordinary law and act through the Courts according to the provisions of the ' Civil Procedure Act. '

The methods of administration do not require any special mention, even when they may differ from those of the old banks.

In those new banks which are affiliated to old Landschaften the Royal Commissioner, who supervises the latter, has similar powers as regards the former. In the New Landschaften of an independent foundation the Royal Commissioner is an equally important functionary; *e.g.*, in that of Schleswig Holstein he has general supervision, presides at the meetings of the Directors and of the General Assembly, and can inspect at any time the offices, books, accounts securities and other documents, and the cash of the bank. That of Posen is placed under the general supervision of the Minister of the Interior, who exercises his functions by a Commissioner, who presides at general meetings and at those of the Directors and of the Committee of Supervision (engere Ausschuss), with power to suspend any resolution, which, in his opinion, may prejudice the interests of the State or of the bank. It appears usual to charge the Ober-prasident of the province (Perfect, Collector) with these functions, but the rule is not absolute. The Chairman of the bank is appointed by the King; the chief Councillors and the Syndic (Counsel) by the Minister.

The' *Central Landschaft* ' merits particular notice. It is obvious that a great central society will, other things being equal, command a wider and cheaper market than banks of purely local operation; on the other hand, it cannot, as in the case of a local bank, command that local, detailed knowledge which, in a credit bank, is so absolutely necessary, if its loans and position are to be thoroughly safe; branches and agents are very expensive and difficult to control, and no mere paid agent can always be trusted; his interests are not always identical with those of the bank, and are very often apt to be swayed by fear or friendship or otherwise, in such way as to endanger the bank's securities. Hence, while a Central bank enjoys cheap credit, a local bank enjoys good security through personal knowledge. The Landshaften in order to secure the best possible terms for their borrowers, *i.e.*, for themselves as associations of borrowers, endeavoured to combine the advantages of the central and of the local bank by uniting to found a Central Landschaft, with its head-quarters at Berlin, and with a market for its debentures in London, Paris, &c. In 1873 nine Landschaften united and founded the ' Central Landschaft for Prussia, ' administered by a Committee composed of members elected from the directorates of each affiliated Landschaft. This Central bank does not lend directly, except short term loans, from any funds in hand, but operations are as follows: the local banks receive applications as usual, and grant loans under their rules, but, when the applicant so desires, they issue to him not their own but Central bank debentures; in such case the local bank sends its own debentures together with the mortgage deed and other documents of the borrower to the Central bank, which retains them in its safe and forwards to the local bank a corresponding amount in its own debentures. These are therefore guaranteed (1) by the whole credit and property of the Central Landschaft which might be, but is not, a joint stock company like the corresponding Central bank for the Prussian Mortgage banks; (2) by the whole credit of the various Landschaften which are affiliated to the Central bank.

this credit including the whole mass of mortgages held by such Landschaften, their guarantee funds, their sinking funds, their various property and finally the whole property of all their members, or, as in some of the old Landschaften, of all the landed proprietors within their area of operation. This perfect security—no Landschaft has ever yet been known to fail in any way in the payment of its dues—gives the Central Landschaft debentures, issued in German, French and English, an ample and cheap market. In 1882 its 4 per cents. were above par, and in 1891 the general rate was 3½ per cent., while 3 per cents. were largely issued. In 1886 it had already issued debentures for £9,884,075, distributed, but very unequally, among the several affiliated banks; in 1886 the New Brandenburg Landschaft had issued Central bank debentures for £2,448,320, while in 1891 its issue was £3,947,200; for Pomerania the figures are £141,290 and £261,335, respectively, while in Kur-und-Neumark the amount had risen from £5,191,312 in 1886 to £7,340,252 in 1891, of which £1,808,160 were at 3 per cent., and the remainder at 3½ per cent. The total of the Central Landschaft outstanding debentures in 1892 was probably £14,753,935.

New Brandenburg Landschaft.—A brief notice of some of the facts of this bank, which may be taken as typical of the New Landschaften, will be useful. It was founded in 1870 expressly to lend upon all land within the province, whether noble or peasant, which had a net annual income assessable to the land tax (Grundsteuerreinertrag) of £7-10-0. It is administered by the Directorate of the Kur-und-Neumark Old Landschaft, and in general follows the regulations of that bank, and is similarly supervised by the Royal Commisioner. It now issues only Central Landschaft debentures, all the borrowers even in the case of loans already granted having taken advantage of the condition enabling them to demand such debentures instead of those of the bank itself, evidently because of their cheaper rates of interest. In 1882 these Central 4 per cent. debentures reached 101, so that the local bank paid the par value to the borrower, and credited 1 per cent. to the reserve. In 1891 the debentures were at 3 and 3½ per cent. for about £350,000 and £3,580,020, respectively.

Loans are granted in the following fashion: the demand must be made to the District Committee on printed forms and be accompanied by all title and other deeds mentioned in the form; a valuation then takes place, which must, as a rule, be preceded by an inspection and enquiry into the position, outturn, stock, management, &c., of the estate. This is conducted by the Commissioner of the Circle (taluk). In properties of considerable value the proprietor may require a special valuation, but in ordinary cases this bank values estates at so many times the net income assessed to the land tax, as settled and registered very many years ago by the State. The present rules (1890) allow up to fifty times this amount to be taken as the capital value including that of all buildings, and to this may be added from 5 to 15 per cent. under very favourable circumstances such as those of great fertility, proximity to markets, good agricultural condition, permanent buildings, specially good pastures, permanent facilities for obtaining manure, pucka drainage, and any special agricultural development undertaken since the assessment of the land tax. From this capitalized sum is deducted twenty times the amount of all taxes and cesses (land tax, building tax, ecclesiastical, school, &c., charges or cesses); the balance is the estimated value, of which two-thirds may be granted as a loan. But if a speedy and cheap loan is required, the estate may be valued summarily at fifteen times the net income above mentioned; in this case no local inspection is necessary, nor are the capitalized taxes deducted. Only first mortgages are allowed, and if prior mortgages have been registered, the borrower must himself pay them off and bring the acquittances before the loan will be granted. This seems a defect; the French Crédit Foncier plan is better, viz., that the bank pays them off on account of the borrower after the execution of the conditional deed.

When the bank began operations, or at least up to 1882, it charged 4 per cent. interest, ¼ per cent. during the first sixteen years for the guarantee fund, ¼ per cent. for the expenses of administration, and ½ per cent. sinking fund; hence the annuity was only 5 per cent. for sixteen years and 4½ subsequently, and this paid off the loan in about fifty-three years. The borrower had also to pay 1 per cent. of the loan in a lump on receiving it; this went to the guarantee fund, as did also *half* the market premium (Kursgewinn) on the debentures, the other half going to the sinking fund. In 1882, it was found that better terms could be given, as the bank was worked almost without cost by the Kur-und Neumark Old bank, and the terms then became 4 per cent. interest, $\frac{1}{10}$ for expenses of administration, and ½ per cent. sinking fund, all other demands being swept away; hence the annuity became only 4.6 per cent. amortizing the debt in fifty-three years. Since then interest has fallen to 3½ and (for one-tenth of the loans) even to 3 per cent., so that borrowers pay only 3.6 to 4.1 per cent. as annuity. This seems the cheapest of all the Landschaften, but, owing to the common principles of the system, viz., co-operation, absence of capital, interest of borrowers solely considered, perfect security, the others are but little if at all behind. In 1891, this bank had 4,566 loans in existence, of which it received 405 during the year. It is probable, as shown by these figures, that owing to the cheapness of the loans many are paid off in advance long before the expiry of the fifty-three years. The *existing* value of the 4,566 loans, which, of course, were in all stages of amortization, averaged as much as £864; hence the average value of loans when granted (not stated in the report) is probably a good deal above £1,000; it is clear, therefore, that at £6 or even £8 of loan per acre, holders with less than 100 acres get little of

the help even of this very cheap and well-organized bank; holders with less than 50 probably get none (*cf.* the cheapest Italian bank (Milan Savings bank) which can hardly lend on property below 75 acres). It is noteworthy that of the 4,566 loans only 219 were valued by special estimation, 3,504 were valued by the ordinary method grounded on the net income, and only 843 on the special summary method (fifteen times the net income).

During 1891 no estates were under attachment, but eight were forcibly sold by the bank, a not inconsiderable number considering the extraordinary cheapness of the loans.

Loans are not recallable except under the usual extraordinary circumstances, but are repayable at the will of the borrower.

Should the debentures be below par at the time of a loan, the borrower may demand the payment of the difference to him in cash, an extra ½ per cent. being added to the annuity till such sum is paid off.

The coercive methods of the bank in case of arrears, viz., the attachment and sale of movables and immovables, are governed by the general law of the country, and exercised through the Courts; special privileges are seldom given to these new banks in this matter.

The earlier Landschaften sketched above have been the suggestive models for the rest of Europe; they were established in Germany eighty years before they were elsewhere followed; in 1852 France developed the idea in the institution which became the Crédit Foncier, which in turn was imitated both in Germany and throughout the world. These new banks will be described below, but it is well before passing on, to note that some of the personal credit (Raiffeisen) institutions of Germany hereafter described are based on similar lines to the Landschaften, at least in their leading ideas of mutuality, responsibility of members, gratuitous (or very cheap) administration by members, absence of share capital, and the establishment of Central banks to which the local institutions are affiliated These ideas, in whole or in part, are pregnant with suggestion for India.

Joint Stock Mortgage Banks.—The second class of real credit institutions is formed of the land mortgage joint stock banks, nearly all of which—31 out of 35—have been founded since 1860. These are all banks of lenders or capitalists, attracted by the success of the Landschaften and by that of the Crédit Foncier of France; their primary object is the investment of capital at good interest; dividends are their aim and not, except secondarily, the benefit of the landowner.

Debentures and Loans.—These banks generally issue debentures against their mortgages, but this issue is not a matter of right, but of special authorization in each case by Government which couples with the concession, if granted, the right of supervision by a Government Commissioner. Many banks have not demanded or obtained this right, finding sufficient funds in their share capital and deposits.

The grant of mortgages and issue of debentures are not so closely correlated as in the Landschaften, where a loan when granted is issued in debentures. In the mortgage banks the debentures are indeed secured by the mass of mortgages, and may, on no account, exceed the amount of such mortgages, but in most banks there is no immediate connection between each loan and each debenture; a loan is granted, generally in cash, which is provided from the working capital (share capital, deposits, &c.) of the bank; the bank recoups its finances by an issue of debentures at such time and to such amount and at such rate of interest, as may be required; repaid loans do not necessarily imply withdrawn debentures, as they may be re-invested in further loans at once; the only condition is that the mortgages existing at any one time shall always exceed the amount of debentures outstanding.

The banks take advantage of the fluctuations of the money market to issue their debentures at a favourable time, and thus to obtain gain for themselves and eventual profit for the borrowers, for since the latter have the right of repayment at will, they can force the bank to give them the benefit of a permanent fall in interest, by borrowing from another bank at the market rates and loading the original bank with a mass of repaid loans, to avoid which the original bank voluntarily reduces its terms, even those of existing contracts.

The debentures are also limited to a certain multiple of the capital, frequently twenty times, but usually ten times the amount. Landed property is subject to fluctuations, and, as at present, to heavy falls; hence mortgages, especially when of fifty years' term, are not absolute securities. Now in the Landschaften the debentures are secured not only by the mass of mortgages, but subsidiarily by the unlimited liability of the members, this latter guarantee finds no place in the mortgage banks, its place being taken by the capital. In the Landschaften the security increases with the number of debentures since each issue means a fresh member; in the mortgage banks the capital is fixed, and this subsidiary security consequently diminishes relatively to the mass of debentures, and might amount to so small a ratio as to be negligible. Hence the limitation to ten or twenty times the amount of capital. the latter being a maximum.

Loans are granted at such rates of interest as may be agreed upon, there being no connection between the debentures and loans; the bank places its debentures at as low interest as possible, and its loans at as high a rate as it can obtain.

The loans are granted up to half or two-thirds the estimated value of the property, and are usually repayable by annuity for any agreed upon number of years or at the will of the borrower at any time after notice. A large number however are repayable in lump at the end of a term. Similarly debentures are generally repayable by periodical drawings or at the will of the bank, but some are for a fixed term, or for an indefinite period.

The banks are also Commercial banks; they receive deposits whether savings or on account current, discount bills, make advances on securities, lend to public bodies and agricultural associations, &c. This causes a certain difficulty; in order that land debentures may be of absolute security they must have, and are always granted the first charge on the mass of mortgages held by the bank; in the Landschaften they are, of course, the only charge. But in the banks doing general business, debentures not specifically secured would, in case of liquidation, rank only with the other liabilities, and might, therefore, obtain only partial repayment: the mere chance of this would ruin their market, comparatively, at least, with those of the Landschaften. To obviate this difficulty some banks expressly charge the mortgages with the debenture values, by depositing with a public official called the Conservator of Mortgages, who represents the debenture-holders as many mortgages as represent the amount of debentures issued; debentures cannot be issued without his knowledge since his countersignature is required to the resolution to issue, and this is not accorded until a corresponding quantity of mortgages is deposited with him; these again are not returned to the bank except upon production of an equal value in other mortgages or in debentures which are to be destroyed in his presence. The Conservator has the right of accepting or rejecting specific mortgages if not satisfactory; he also supervises the repayment of debts, and, for that purpose, has the right of periodical (monthly) inspection of all books, ledgers, &c., and prepares, in consultation with the Directors, the register of repayments to capital, and requires either a corresponding extinction of debentures or a deposit of further debt bonds. He keeps a register in which are ledgered against each bank the mortgages in his custody, together with their value and other details. He also summons annually a meeting of debenture-holders for each bank, and reports results. The meeting elects two auditors to assist him in his duties, and at the same time supervise the operations of the bank. This practice is of considerable value, as it establishes a wholly independent check over bad management, while the mere existence or possibility of such check must tend to prevent mal-administration.

The provisions above noted, except as to the use and powers of a public meeting, are very similar to those of the English Land Mortgage Debenture Act (*see* below).

It is doubtful whether without express legislative provision the mere deposit of securities with a third person constitutes a legal assignment of them in such wise as to secure them as a guarantee solely for the debentures, and it is believed that a Bill was prepared to prevent any doubt, and to provide further rules for the representation of debenture-holders in the affairs of the banks; the fate of the Bill is not known.

Comparison with the Landschaften.—The mortgage banks have attained a vast development; in 1881 the Landschaften had debentures outstanding for £69,863,050, while the mortgage banks had issued for above £80,000,000; in 1886 the debentures were respectively, £82,519,350 and £105,120,250; in 1890 the mortgage banks had issued for £154,000,000, with mortgages for £163,540,000.

This success is not due to any privileges, for none are granted; on the contrary the banks have to compete with the privileged and long established Landschaften. It is true, however, that these banks turn their chief attention to urban property which, of late, has enormously developed in value; every bank is located in a city, and naturally works first and chiefly in its vicinity, especially as the Landschaften do not lend upon urban property or upon buildings except as appanages of estates and farms. Some, however, as in the case of the Bavarian mortgage and discount bank, do a very great rural business, even in small loans (*see* below), but this is exceptional and is entered as noteworthy in the report of the above bank. It appears probable that the Landschaften are more suited for countries with large farms than for those where small culture predominates; they are chiefly found in the northern provinces of Prussia, while the mortgage banks prevail in the southern provinces. The reasons seem to be, as shown previously, (1) that the construction of the Landschaften is complicated and ill-adapted to large numbers of members; (2) that they were started for nobles only and are somewhat conservative; (3) but chiefly that small holdings cannot bear the expense of loans by central banks which require costly inspections and enquiries, and that the banks cannot burden themselves with the risks attending small estates, in which a slight fall in values might destroy their security, which it is impossible to keep under supervision as regards their agricultural methods, and which, if default occurred, might be found unsaleable, and yet too small to take under management.

The mortgage banks, however, dealing chiefly with urban property in their immediate vicinity—a property moreover steadily rising in value—can invest immense sums easily and safely even in small loans; but when they do lend, as in Bavaria, small rural loans, it appears that they resort to coercive measures and forced sales in a very large proportion.

The attractiveness of the Landschaften lies largely in their co-operative character they are associations of proprietors, mutually bound together, rendering one another the service of credit based on solidarity, and performing the duties of the bank to a large extent gratuitously and always cheaply; they have no aim but the benefit for the borrowers, that is of the members; there is no share dividend to swallow up profit, no shareholders demanding large and still larger dividends, and measuring the value of the work done and even, strangely enough, the security of the bank, by the largeness of the dividends, and no temptation therefore to indulge in risky business to please share holders and to oust competitors: dealing, moreover solely in loans upon land they do not run the risks

attending Commercial banks. The absolute safety of their business gives their debentures a splendid market, so that 3½ per cent. is now the general interest paid by the Landschaften to the public.

On the other hand, although the mortgage banks are more expensively administered by highly paid officers and devote the bulk of their profits to dividends, yet these disadvantages (from a borrower's point of view) are perhaps compensated by the increased keenness and capacity which is obtained from well-paid men of business, whose sole object is the financial success and development of the bank, by the profits obtained from the other banking business, especially that of bill discounting and advances at good interest upon securities, and by the fact that their share capital, though receiving dividends, is at the disposal of the Directors for banking purposes. Moreover, the presence of this capital—with the reserves—as a subsidiary guarantee for the debentures, evidently gives their debentures, as demonstrated by their market quotations, at least as good a position as that of the Landschaft debentures. It must also be remembered that the strict Government supervision exercised over banks which issue debentures, and especially that of the Conservator of Mortgages, and the debenture-holders' meeting provides an almost absolute guarantee for these securities and prevents any large development of risky business.

The mortgage banks are also more elastic in certain of their methods; they pay their loans in cash, and the interest is arranged according to the market, and according to the borrower's status and security. They seem also to provide for improvements—especially buildings—whereby a comparatively valueless property may be developed; a loan is granted payable only in instalments, each payment being subject to proof that the improvement has been carried out to an equivalent value; this operation is not undertaken by Landschaften, but is restricted to a totally separate class of Land Improvement banks (*q.v.*)

The mortgage banks then are on a level with the Landschaften in the cheapness of their loans, but the latter enjoy the advantage, supreme where the clientèle is purely agricultural, of greater freedom and elasticity in dealing with their debtors in case of misfortune or seasonal disaster. The statutes of the Landschaften expressly provide that in case of such misfortune not due to the debtor's own negligence or mismanagement, delays up to one year or even longer may be granted for the payment of interest due, the sinking fund amount being, however, generally required at due date. This concession is possible because no one has anything to lose by it; there are no shareholders who live by or are dependent on their dividends; the members of the association are themselves all actual or possible borrowers, and, under the method of a reserves, general and special, it is possible to meet temporarily the interest due on the debentures; hence the Landschaft's debtors are not harassed nor its creditors embarrassed. In this way, in case of loss by cattle disease, hail or fire, &c., the unfortunate get at least a breathing time which frequently enables them to recover, it being added that the Landschaften usually require their borrowers to insure cattle, crops and buildings in the societies specially devoted to insuring against disease, hail, or fire, and, in many cases, have started such societies of their own, in which debtors are required to insure.

But the joint stock banks seldom grant this indulgence; dividends must be earned, and, if a bank is to maintain its financial position, to keep its shares at a premium, they must be regular and sufficient even in years of agricultural difficulty. This at least is said to be the experience of the German mortgage banks, and it is confirmed by the large number of forced sales already noticed. Now to an agriculturist, while delay means recovery eviction means ruin, and even the sale of movables, unless carefully safeguarded as in the case of the Landschaften (necessaries for the working of the farm may not be taken in execution) causes embarrassment which may lead to ruin.

Possibly some middle plan may be found which may combine the advantages of both classes of institution; local associations of owners with a foundation or guarantee capital subscribed either by the members in shares or by foundation non-borrowing members, but bearing only a fixed interest, little if at all, above that paid by the State for its funds, utilizing all profits, after paying such interest, solely in filling the reserves, in repaying the foundation capital, and, subsequently, in reducing the cost of loans, and financed by debentures through a central institution, would be able to obtain cheap capital and consequently grant cheap loans, while its reserves and the absence of a real dividend would enable it to be considerate to its borrowers in time of absolute necessity. The Hungarian Boden Credit Anstalt (*see* below) is based on these lines, and might well serve as a model. But no great credit association, even of the Landschaft class, can fully perform the highest functions of credit, viz., those of education and discipline, foresight and calculation in the use of capital; the cheap credit of the Landschaften led undisciplined borrowers into extravagance, and the cheap credit of the modern mortgage banks has assisted in developing indebtedness or at least does not prevent both indebtedness and reckless borrowing (*see* chapter on ' Credit ').

Central Bank.—The mortgage banks found in 1870 the necessity for establishing a Central bank for the issue of central debentures; this is a joint stock company and may issue debentures up to twenty times the amount of its capital and without reference to the value of the mortgages held by it; the mortgage securities which it holds are expressly and solely charged with the debentures issued against them, for which purpose they are deposited with a notary. The Government confirms the appointment of the Chairman

and other Directors, and supervises the administration by means of a Royal Commissioner, who countersigns the debentures and is held thereby to certify that they are issued according to the rules. Late statistics are not available, but by its twelfth year it had issued £8,500,000 in debentures; its capital was £1,800,000, of which £720,000 was paid up, and it had reserves of £74,000; its 4½ per cent. debentures were then at 2½ per cent. premium and those repayable with 10 per cent. premium by the usual drawings were at 8 per cent. premium.

State Banks.—The origin of the various State and Provincial institutions was in general the necessity for applying the provisions of the several laws relative to the emancipation of the land and its possessors, whether nobles or peasants, from the trammels of feudalism, and to the development of agriculture by the possibilities thus opened to cultivators. The nobles required working capital to replace the feudal services and dues which the peasants had, up to that time, compulsorily rendered; the peasants required capital to redeem their lands from the rent charges into which their services and dues had been commuted, while the needs of a developing population upon a—generally speaking—unimproved soil, and the laws which made associations for development by way of drainage, irrigation, embankments, &c., compulsory, equally demanded institutions for the supply of capital. The nobles were already provided for in great measure by the Landschaften and by the ordinary banks; for the rest the rent charge banks, the borrowing powers given to associations, and finally, the land improvement banks were necessarily founded.

The only German State banks not started with such ideas are, so far as is known, the two credit and mortgage banks of Saxony. The other banks have occasionally developed their operations into those of ordinary credit banks. But there is little in the history of credit banks founded by the State to assist or encourage similar foundations in India. The rent charge and land improvement banks, however, will be sketched.

Rent Charge Banks.—These require special notice, as they have undoubtedly been successful in providing even the small peasant with the means to pay off the redemption money due to the landlord in commutation of the corvées, feudal dues, &c., which burdened all peasant properties. They have also been especially mentioned in suggestions for the re-organization of credit in India, and it is well, therefore, to study their history to see whether their example has anything in it for India. For, if the Prussian State could devise and carry out a system for emancipating property from the complicated rights and dues which hampered both noble and peasant, the State in India, it is argued, can do the same in the (supposed) comparatively simple matter of relieving its peasantry from usurious debt. The argument seems at first sight correct, but examination shows that the question of Indian credit is altogether more difficult than appears by the above statement; it is not simple, but insuperably complicated and elusive.

The peasant (Bauer), *i.e.* the non-noble, is not necessarily in Germany a small cultivator; he may and often does hold many hundred acres, and, in fact, the very small holders of from 2½ to 10 acres are, in many parts, not called Bauer, but Halb-Bauer or Hüfner (holder of a hide of land or such as may be ploughed in one day) or even Halb-Hüfner or Kuh-Bauer (cow-peasant), &c., or generally the "kleine Leute" (small folk) as expressly so called in the law of 1850, which established the rent charge banks. The history of the emancipation of peasant, *i.e.*, simply non-noble, lands from the grievous feudal charges, corvées, and disabilities which prevented full property in the land, and the opening to all classes of the power to obtain full and unhampered property in land needs no detailed description; in 1807 the well-known law abolishing villeinage, and permitting the free acquisition of land and the free choice of occupation with other minor rights, substituted a comparatively free peasantry for a mass of serfs; in 1811 this was necessarily supplemented by another law, seeing that the peasant was still encumbered with servitudes, corvées and all sorts of feudal restrictions and dues, so that, though no longer a serf, he had no full property in his land; the noble owned the peasant's land, but did not possess it; the peasant possessed the land but was not master of it, or even of his own labour. Hence the new law sought to substitute allodial for feudal tenure, establishing all hereditary tenants as proprietors subject to a commutation of the landlord's claims which were to be commuted, but, so as in no case to exceed one-third of the income from the land; such commutation to be made by the tenant in land when the tenant held more than 35 acres, but as a corn or money rent when it was below that area. There were many details and conditions, but these were the main ideas. In this way the peasant got two-thirds of his land as his own property free of all feudal charges, instead of holding the whole as a tenant subject to such charges, or he retained the whole of his land subject to a commutation rent charge. Another edict was also passed in the same year for the "better cultivation of the land" which made provision for the free transfer of land, so that the soil might be in the hands best fitted to cultivate it without encumbrances, and for the commutation of services into rent charges redeemable by a capital payment; it dealt partially with the rights of common, &c., and also suggested local agricultural societies with a central office at the capital, in addition to official agricultural boards.

This legislation seems to have been to a certain extent permissive as regards the commutation and redemption of feudal and other charges, and as the peasants had no capital with which to pay the redemption amount and banks were not then open to him, it seems that the law had but little effect in practice in the way of effecting its objects;

it was further restricted by the law of 1816 to certain classes of peasant holding, and later on, 18 acres was fixed as the minimum farm to be dealt with. But in 1845, all peasant farms, however small, were granted the right of commutation, and certain rent charges were declared commutable at twenty-five years' purchase, for the redemption of which sinking fund societies were established. Then followed the troubles of 1848, out of which arose the laws of March 2nd, 1850, which (1) abolished certain manorial rights without compensation; (2) ordered the commutation of other customary rights and services into fixed money rents; (3) made such money rents redeemable—compulsorily as regards the lord—either by the immediate payment of eighteen years' purchase in cash or by an annuity calculated to redeem the capitalized value at twenty years' purchase in from forty-one to fifty-six years; (4) provided rent charge banks to assist the redemption of these charges.

Very complete rules are laid down in the law for the principles on which commutation is to proceed, and these principles were to be applied by the Special Procedure Commissions which had been already appointed, in 1817, for similar purposes. The Minister of the Interior, succeeded in 1848 by the Minister of Agriculture, was the supervising authority; under him were (1) General Commissions, (2) Appellate Commissions. The General Commissions were the lower Courts, to whom claims were presented; these claims they referred to a Special Commissioner, who had extensive powers of local enquiry and survey through experts, arbitrators, &c., all the formalities of ordinary judicial procedure being observed; the parties bore the costs, but certain fees and stamp duties were remitted. The Special Commissioner reported to the General Commission which issued its award, subject to appeal to the Appellate Commission, of which there were at first five.

When charges, &c., had been thus ascertained, valued and commuted, the peasant had the right of payment or redemption as above. As already stated, the old law had had little practical effect, for the peasant, except the class of richer men, had no capital wherewith to pay the redemption money; hence several States had established rent charge banks, Saxony leading the way in 1832; the Prussian law of 1850 finally followed on similar lines. These banks were placed under the Minister of Agriculture and the Minister of Finance, and were administered by the district authorities in conjunction with the Special Procedure Commissions above mentioned. Whenever a claim had been commuted and settled by the Commissioners, the bank undertook the redemption of the charge by handing over to the payee debentures to the value of twenty times the charge, and debiting the peasant with the value on the security of the lands in question, on which the loans formed a first charge which followed the *land* and not the person. These debentures were placed in the open market, and as the banks enjoyed a Government guarantee, and were, in fact, State banks with, moreover, complete cover for the debentures in the mass of specially privileged mortgages which formed the security for the debentures, their paper was readily accepted The interest coupons on the debentures formed a sort of currency which were legal tender in all Government offices, and payment by the debtor of his dues to the bank was accepted from him each month with the ordinary taxes, by the collector, who credited them to the debtor's account with the bank. For the rest there is nothing in the methods of the banks requiring notice; they were mere offices of issue, the persons and amounts of each issue being determined for them by the Special Commissioners; the method of debentures has already been described under 'Landschaften.' The law required that the whole work should be finished within a certain time and in 1859 the 31st December was declared to be the latest date for effecting redemption through the banks. The banks are, therefore, temporary institutions, and the loans issued by them should have reached their maximum by the end of 1859; this, however, was apparently not strictly adhered to, for in 1865, the seven Prussian banks had paid out about £12,000,000 and by 1870 about 13¼ millions. Presumably the banks will be closed by about the end of this century.

It will be seen then that what was dealt with was a mass of customary services, dues and rights which might diminish but could never increase; they were, in fact, annually decreasing after 1807, as the better class of peasant agreed with their overlords to commute services, and as the independence of the peasants and power of the nobles respectively waxed and waned. Hence though the question was complicated, its terms were either fixed or, still better, were under gradual simplification, and for the solution of the problem numerous and expert Special Commissioners were engaged from 1817 to 1859 in settling claims; even in a little State, such as Hesse, the Special Commissioners were at work apparently from 1811 and certainly from 1836, till 1848 settling these claims. The work, then, of the rent charge banks was absolutely nothing but the issue of debentures; they had no enquiries to make as to solvency, title, &c.; all that they had to do was to issue debentures for the amount settled, once for all, on previous enquiry by the Special Procedure Commissioner, and this finally resulted in the very modest amount of £13,000,000. When, therefore, it is pointed out, and correctly, that rent charge banks got down to the small peasant, it is to be remembered that they were not credit banks forced to verify the fluctuating solvency, status, title and character of each applicant for a loan, and the varying value of his land, or to arbitrate between him and his creditor, but mere offices of issue, carrying out in money, or rather in debentures, the previous and fixed decisions of the Commissioners. The State, in this case, did not count the expense; the legislation and its consequent operations were the result of the political necessity to form a free and prosperous nation of independent proprietors out of a mass of quasi-serfs; to build up prosperity in a nation broken by war, enfeebled by the burdens

of feudalism, and restrained from agricultural development by the shackles of customary charges and feudal tenures; heroic measures were needed and were adopted, but the action of the banks was merely a subsidiary trifle; the real work was done in the law and by the Commissioners. Moreover the mortgage of the bank, so far from being an embarrassment to the land, was that which gave it its market value; without the mortgage it was weighted by heavy and at first uncertain charges, it could not be sold or mortgaged, for it did not belong to the peasant; only after the bank had paid off these charges did the land become in any degree marketable, and the constantly diminishing mortgage debt to the bank did not prevent its ready sale or transfer.

In the Madras Presidency there is no question involved such as that heroically solved in Germany; it is a question of credit difficulties with an uncertain amount of shackling disability consequent thereon. The question, in fact, is *infinitely* more difficult than the German question, for the terms of the problem are evasive, shifting and uncertain to a degree; they change and possibly increase from year to year; they depend on national character, on season, on the unascertained needs of a developing society; the factors are moral, mental, economic and industrial; there could be nothing final in any award of liquidation or settlement, no certainty that, once liquidated, the absolute needs of the peasantry would not demand fresh indebtedness. The steps corresponding to the German procedure would be (1) a special enquiry into all existing debts, and a liquidation if necessary with creditors; (2) the establishment of banks to pay off the settled debts, and to take over the obligations of the debtors; (3) the raising of the funds and the effectuation of the operations. These, in fact, are precisely the proposals of Poona and Bombay Syndicates, and will be dealt with hereafter; suffice it to say here, that such liquidation would be, even with an extensive special staff, the costly work of decades; that the enquiry could never be final, for fresh debts would constantly be incurred; that when liquidation was effected it would be useless if not instantly followed by payment; that when payment was effected, the bank would have to be prepared to meet all its debtor's requirements for further aid during the term of the original loan of perhaps forty years, such requirements being certain, on account of seasonal vicissitudes, family needs and so forth; that consequently the bank would have to be organized and financed at once to meet all such demands, and hence, that to start banks for the liquidation of debt without providing a complete banking organization would be simply to throw the debtor again upon the usurer, whose terms, seeing that the bank had already the first charge upon his property, and one which, unlike the charge of the rent charge banks, would be a genuine encumbrance would be all the more onerous. The educative and disciplinary requirements of credit, as postulated in the chapter on credit, would also be lacking in such a bank. The credit question then is not to be solved by mere banks on the analogy of the rent charge banks of Germany, which are only here mentioned to show their real character, to take an opportunity of mentioning the decisive steps taken by the Prussian Government when occasion required it, and to point out that ready as the masterful Prussian Government was to take such steps in the interest of the freedom of the peasantry, and to carry out its plan through special establishments, and during forty years of consecutive action, it has never attempted the problem of bringing credit to that peasantry; it has not attempted to relieve them from debt, to provide them with working capital, or even to establish credit institutions, although the debt of Prussia alone was in 1865 estimated at £375,000,000, and is now far more, though the development of agriculture was the leading principle of much of the heroic legislation of 1807, 1811 and 1850, and though capital was and is the crying need of the German as of the Indian peasant. Whether this arose from the enormous if not insuperable difficulties in the way of the State dealing with individual credit, or from the perception that the nation itself should deal with such questions for itself, is not clear; the preamble to the Act of 1807 expressly recites that "owing to the universal character of the prevailing misery, it would surpass our means to "relieve each person individually, and even if we could, the objects we have at heart "would not be fulfilled," and goes on to provide for the removal of hindrances and existing restrictions. Whatever the restricting cause, the Prussian State has not, except in the smallest of ways, attempted to provide credit; certain petty States have done so, but even in such cases, there has been no attempt at prior liquidation; this was left to the individual either through the bank or direct with his creditor, and this, though the small German peasant even now, and especially a few years ago, is little, if at all, better than the true Indian ryot in his art, in sobriety, in general character or in business habits; the German peasant may be the backbone, but he is not the brain of the German people.

If the resources of the German Government are unequal to the task of relieving the peasantry from debt, let alone of providing continuous general credit, the Indian Governments can hardly hope to face the task with the prospect of success, nor, if they could, is it probable that "the objects which they have at heart," and the best interests of the people, would be fulfilled.

Land Improvement Banks.—A sketch of the law and facts preceding the formation of these banks is desirable as showing the progress of land improvement ideas in the mind of the successive Governments and their influence on the people; the sketch will also explain the origin and status of the banks themselves.

In 1811 a law for the promotion of agriculture was passed in which agricultural societies were recommended to be scattered broadcast over the country; agricultural improvements were also suggested, and the necessity for State interference both for the direct

carrying out of improvements and for the *compulsory* execution of them by individuals, was also recognized. Other laws followed, establishing the procedure where lands were to be drained or reclaimed, for the irrigational use of streams, the latter including a provision barring objections to a scheme, where such scheme had been duly published for three months after communication to the proper department. In these laws it was recognized that the welfare of agriculture demanded, under proper conditions of compensation, &c., the over-riding of private rights in certain cases. The most noticeable provision, however of the law of 1843 is that the State can at will *compel* the formation of associations for making improvements, such as irrigation and drainage works, where such appear to be of public advantage; in that case land-owners must unite for the purpose. In 1846 the law made the reclamation of land, including sub-soil drainage, an object of compulsory association; in 1848 the building of dykes for the prevention of flooding was added, and, in 1854, the notable addition was made of the compulsory plantation in bare places of woods and forests by compulsory associations.

In the later period of this legislation the State added what is a necessary corollary to compulsion, viz., subvention: funds are lent to the poorer associations, and as the loans are repaid, the funds are again lent out; interest is usually 3 per cent. and a free period of two or three years is allowed. The several associations are also allowed to issue debentures secured upon the general undertaking, and, as usual, in the case of land improvement, creditors, *i.e.*, debenture-holders have priority over all other creditors, or encumbrancers, even though earlier in point of time, seeing that the improvement adds to the value of the land the full amount spent on the improvement, so that prior loans are in reality more secure than before, especially as the improvement charge decreases by amortization.

The results have been considerable; the richer classes of associations have readily found funds by the issue of debentures and have not required State advances except to begin work; poorer societies have borrowed considerably from State funds; altogether in 1870 the State had lent 17.4 per cent. of the expenditure. In 1869 the number of compulsory drainage and irrigation associations was 95; of voluntary 170; many of these were very small, affecting only 46 acres each on the average; a few large, averaging nearly 4,000 acres; in Saxony there were eight compulsory irrigation, &c., societies affecting in all 166,242 acres. Altogether in 1869, 1,951,280 acres had been affected at a cost of £2,392,032; out of this over 60 per cent, was spent in protection by dykes, and less than 40 per cent. in drainage and irrigation.

The planting of woods was carried on in eleven years up to 1866 to the extent of 29,174 acres; the communes found the labour, the State providing the surveys, plans and supervision.

The above is taken from the report on the land tenures of Europe (1869), but is not intended to give an account of their operations, which will be found in the triennial reports of the Agricultural Department under which the whole matter is placed. The object is merely to explain the Government position in Germany with reference to land improvements, the national, but especially the State perception of the need for agricultural development, the compulsory nature of many of the operations and the consequent necessity for State aid, the methods of financing the associations, and the natural development which ensued in 1879 in the legalization of land improvement banks, to supply the growing requirements of the country for money for agricultural improvement. Germany had found that, by the aid of banks issuing privileged land debentures, private capital could be obtained at cheap rates to any extent, so that State—financed aid was not only unnecessary, but an undue burden on the State and on the tax-payers; the Provincial land banks, the Hypotheken banks, the rent charge banks, the irrigation associations were all financed by their means. Under the pressure of population, and the competition of other countries, intensive and scientific agriculture was called for, and a notable paper in 1868 on 'Drainage *versus* Famine' pointing out that at least 35,000,000 morgen of land require to be drained at a cost of at least £70,000,000 and with a probable annual gain of perhaps £26,000,000—seeing that the great cause of agricultural loss in Prussia was the wetness and coldness of the land—aroused public attention, and was followed by numerous petitions from agricultural associations pointing out the examples of England and France, and even of Saxony in its land improvement bank (for drainage and irrigation loans only). In 1875 the House of Representatives resolved that a suitable Bill for the establishment of land improvement banks should be introduced; the Agricultural Department were ready, having long studied the question, and after consultation with various authorities, including credit banks, a Bill of 32 sections was produced in three years which became law in 1879.

This law provides the conditions under which it is ready to grant certain rights and privileges to certain persons and corporations, and specially charges provincial or communal administrations with the duty or faculty of establishing land improvement banks with the objects—

(*a*) of the development of agriculture especially;
(*b*) of the making, &c., of roads;
(*c*) of planting and reclaiming land;
(*d*) of establishing land societies;
(*e*) of embanking rivers;

(*f*) of making, strengthening and maintaining dykes;
(*g*) of managing and regulating streams and water-ways.

The funds of the banks are to be obtained entirely from the investments of private capital, and are not to be drawn either from State or Provincial funds; this provision is due to the proved success of all associations and banks in placing debentures.

The privileges of the banks are simply (1) the right to collect their dues by executive methods instead of through the Courts; the method is not stated, but is apparently similar to that of the land banks, and is less summary than that of the English method of distress for rent; (2) certain exemptions from stamp duties, apparently, as in the case of land banks, those on debentures and their transfer; (3) the free registration in the land registers of mortgages and various other documents; (4) the right to issue debentures. The first three rights necessarily follow from the *status* of the banks as State or public institutions; the rent charge banks have similar privileges.

Loans are granted on mortgages up to half the value of arable or forest lands, calculated at twenty-five times the net income as assessed to the land tax (much below the present value) or ascertained by special valuation. On the conclusion of the work the borrower may obtain a further loan up to the value of the cost of the work if the prior loan is insufficient to cover such cost. Mortgage security for a loan is not required when the borrower is a town or commune, a public co-operative society in the meaning of the law for the establishment of irrigation societies, an incorporated dyke association governed by royal decree, or an association for planting woods; this provision is important.

The conditions for the grant of loans and issue of debentures are similar to those of the land banks: also those for the immediate recovery of the principal money when the debtor fails in his duties, such as those for the proper upkeep of the improvement during the continuance of the loan, after due notice from the bank, when the estate is attached or sold by Court, or the mortgage is otherwise endangered, or when the debtor becomes bankrupt, or when at his death his heir declines to take up his responsibilities. The bank's mortgage for loans takes priority of all existing charges, but only up to the amount of the necessary cost of the improvement and upon such part of the estate as is directly affected by the improvement. Loans are repayable solely by amortization, the only safe and proper method when capital is sunk in permanent improvements. On the repayment of a loan the mortgage entry in the land registers must be cancelled, the bank being required to apply for the purpose.

The banks may not charge more than 4½ per cent. as interest and 0.2 per cent. for expenses; hence the annuity, paid in two instalments, consists of 4.7 per cent. *plus* the sinking fund, which latter may, if the Articles so permit, be omitted for the first year of the loan.

Debentures are of the usual classes; if, when drawn for repayment, they are not presented within ten years, the holder's claim is barred; interest is barred after four years.

The reserve must be 5 per cent. of the amount out on loan.

The articles are subject to a resolution of the Provincial Council and require royal confirmation.

The Provincial Executive Board has the general supervision of its bank, and has especially—

(*a*) to decide complaints brought against the directors;
(*b*) to report annually to the Provincial Council on the working of the bank;
(*c*) to select the members of the Commission for advising on proposals for drainage;
(*d*) to control the issue of debentures, so that they shall not exceed the outstanding loans;
(*e*) to see to the carrying out of the Articles generally.

The Provincial Council has the supreme supervision in matters relating—

(*a*) to the alteration of the Articles;
(*b*) to the choice of Deputies for certain special duties;
(*c*) to the closing of the bank.

The results do not seem very considerable. The original bank is Saxony only lent £534,124 in 1,531 loans in the twenty-three years ending 1885, of which £346,296 were spent in draining 58,420 acres: the average loan was £348. The Silesian bank was established in 1881 and in ten years had only lent about £90,000; in 1891-92 it only granted nine loans for £14,930; of these four were granted to associations for £11,500. The periods of repayment varied from seventeen to twenty-eight years. The debentures (4½ per cent.) were quoted at 101 in 1891-92.

It seems clear that these banks do not, unless *through associations*, affect the smaller class of proprietors, and that the loans are chiefly granted for drainage and irrigation projects. That is good so far as it goes, but there seems little in them to help the small owner; it is indeed questionable whether the small owner is alive to the improvements required by intensive and scientific agriculture; credit is sought for land improvements only in the later phases of development, and the small German peasant, as elsewhere, has hardly attained that development.

There are other institutions which distribute real credit in Germany, such as the ordinary banks, insurance societies, corporations and pious foundations, and above all the Savings banks. The former require no special notice; the last named will be dealt with hereafter in a separate chapter. Suffice it here to say that the Savings banks in

Germany as in Austria and Italy do not place their funds with Government but are free to dispose of them as they please; in 1881 the Prussian Savings banks had £91,000,000 sterling in deposits, of which nearly 28 per cent. were in town mortgages and 28 per cent. in rural mortgages; in 1891 the amounts were far higher, but the ratios were similar.

Resumé.—There are three classes of land banks in Germany (1) mutual, viz., the Landschaften, formed solely for the purpose of getting cheap credit; all the members are jointly liable in all their property, but sustain no losses owing to their very careful management by elected representatives, coupled with Government supervision. They have no capital, no shares, and no dividends; they derive their resources solely from the issue of debentures in representation of the mortgages they accept, the debentures and their interest being secured by the total mass of mortgages, by the whole property of all the members, and by the reserve, which should accumulate till it reaches 5 per cent. of the total amount owed upon debentures. All mortgages are repaid by annuities or instalments extending over forty or fifty years, each instalment comprising interests, expenses, and amortization. The debentures are repaid gradually—usually by drawings by lot—as the debtors of the bank pay in their instalments. The interest and charges are low, being usually about 4 to 4¼ per cent. not including sinking fund. In brief, the leading ideas of these banks are mutuality, loans for long terms against the issue of long-term debentures, and repayment by annuities including a sinking fund. Their administration is gratuitous or economical and is closely supervised and controlled by the State; they deal only with rural estates.

The second class are mortgage banks having a share capital, subscribed by capitalists seeking a profitable investment of funds and good dividends. These are financed for lending purposes either by the issue of debentures as in the Landschaften or by deposits. They engage in all classes of banking operations, but accept mortgages, chiefly on urban property.

The third class is that of State or Provincial banks, founded with special objects and of no great general importance or development.

Results.—These banks, however suitable for the better class of landowners, have been able to do nothing for the smaller class of owners, viz., those who hold less than 20 or 25 acres. Up to 1849, "peasants," *i.e.*, non-nobles holding estates of any size, were not admitted, except in one or two cases, to the benefits of the Landschaften; since that date they have been partially admitted, and of recent years, especially since 1879, the minimum value of estates on which loans could be granted has been greatly diminished; *e.g.*, in East Prussia the minimum value is £75; in West Prussia £150; in Posen £200; in the other provinces the estates admissible to loans must be assessed to the land tax on a net income (Grundsteuerreinertrag) of from £1-10-0 to £12, this net income being an old Government valuation of seemingly little modern value. It is to be here noticed that the "value" is not the market value, but the appraised value (Taxwerth) which is in all cases "much below the actual value in the market." It is stated in the Government Agricultural Reports of 1883-1887 that these Landschaften, though good for fairly well to-do persons, have helped the small folk to a very limited extent; that in general they do not reach the peasantry below farmers who own "team-requiring estates"; these are defined as those not falling below 18 acres and they average from 34 to 61 acres. As a matter of fact, the loans actually granted do not reach the lower rank even of the team-owning farms, as shown by the size of the loans granted. "For still smaller properties, "a mere real credit institution is particularly little suited—überhaupt wenig geeignet—" (Government Agricultural Report, 1887). Now these Landschaften are not great Central banks, but operate each in a province averaging 10,000 square miles, *i.e.*, little larger than a large Madras district, and though operating over this moderate area for a hundred years, and for at least the last forty with a view to help the peasants, they have been unable, even in Prussia, to assist the bulk of the peasantry.

The following statistics as to loans are available for the Landschaften. In Silesia, where the oldest Landschaft exists (from 1769) and four-fifths of the whole number of owners hold below 19 acres, it was stated in 1870 that nothing had been done to assist that class, that they were in practice debarred—as stated generally by Government in 1887—from access to that institution, and had no resort but the private money-lenders including usurers; in 1883 only £1,750,000 were on mortgage to non-nobles, though the bank had been open for thirty-four years to that class; this represents loans to only about one case in 100 of the non-noble estates, though the bank had nine branches in the province: in 1870 its loans to such estates averaged £520 in value. In 1892 the report of this bank states that the existing loans to noble estates were valued at £15,613,845 in 2,087 loans averaging therefore about £7,480 while those to non-noble estates were £3,921,730 in 5,472 loans, the average value being £716: this moreover represents existing values, though, under the sinking fund method, the loans must have been in all stages of amortization down almost to extinction; hence the average loan, as granted, must have been much above £716 even to "peasant" estates. It must be remembered that this bank is permitted by its statutes to grant loans as low as £5 and on properties producing a net taxable income of £1-10-0:— the difference between practice and possibility is well marked The 4 per cent. debentures were at a premium. A good number of the larger estates were under attachment for arrears.

In the report for 1892 of the West Prussian Landschaft, the important information is given that in the past seven years no less than 94 noble estates were sold by the bank

for arrears, of which 12 were bought in, as the arrears were not covered by the sales: by the subsequent resales the bank lost £20,598. The New West Prussian Landschaft, established for peasant as well a sother borrowers, had loans in 1870 averaging £920: later figures are not known.

The Westphalian Landschaft in 1890 granted 49 loans for £108,500 or £2,216 per loan; in this Landschaft loans may be granted on property bringing in a net taxable income of £3-10-0.

The Kur-und-Neumark bank had in 1892 a total of 1,010 loans in existence for £9,281,728, an average value of no less than £9,189: its business, but all in large loans, had doubled since 1875: out of 1,465 noble estates in the province no less than 878 or 60 per cent. were under mortgage to the bank to an existing value of £8,300,000. Debentures were at a premium.

The New Brandenburg Landschaft, expressly established for "peasant" proprietors, and ready to lend on properties producing annually £5 of net taxable income, had in 1892 an existing total of 4,566 loans, then valued £3,947,200, and averaging £864 in present value; in 1882 the average value of each loan granted in the previous ten years to "peasants" was £1,370.

The East Prussian Landschaft is ready to lend on estates having a sale value of £75: in 1892 it had 9,558 loans for £13,970,155, averaging £1,460 in existing value; its 490 loans for the year averaged about £524; of these loans only 113 were granted on estates below 250 acres.

The Landschaft of Pomerania had in 1891 a total of 1,521 mortgages, averaging £7,449 each. The New Posen Landschaft admits all properties valued at £200: in 1891 it had loans to the value of (apparently) above £17,000,000, but its loans for the year were only 41, averaging £1,662 each.

A small Landschaft in the district of Lusatia in Silesia opened its doors to peasants in 1849, but up to 1860 only 19 peasants obtained loans, with, however, the low average of £210 (due probably to the smallness of the bank and its very limited area), while fifty-four times as much was granted in the same period to non-peasant property. Later figures are not known.

In Schleswig-Holstein a new Landschaft was founded in 1882; in 1892, there were in existence 398 loans, averaging £1,091 each.

It is to be remembered that loans, especially upon small estates, can hardly exceed on an average £5 or £6 per acre (*see* 'loans'), so that a loan, even of only £150, could hardly be granted to an estate of less than 30 acres. It appears, then, from reports taken at random, that the Landschaften, whether old or new, whether for the nobles only or for all classes, are unable to grant small mortgages, notwithstanding their limited area of operations, their numerous agencies, their cheap administration and absence of dividends, their various privileges and the perfection of the Prussian land registration system, in other words, the direct statement of the German Minister of Agriculture and of others that land banks, pure and simple, cannot supply funds to the "small folk," is absolutely correct.

The significance of this will be judged by the following figures: in 1882 the Prussian soil other than urban, was occupied in 3,040,196 farms; of these, no less than 2,635,349 or 86 per cent. were below 25 acres, while 1,456,724 or 48 per cent. were below 2½ acres: few of the farmers of either of these classes could hope to borrow from the Landschaften, notwithstanding the low minimum value fixed by the statutes of the banks as the basis of loans. The figures are not unlike Madras figures, and it is fair to draw the inference that what the Prussian land banks with all their skill, intelligence, facilities and experience, exercised through many years, have been unable to effect, is hardly likely to be possible in the Madras Presidency. It is not in mere land banks that the bulk of the Madras ryots can hope to find organized credit.

Some statistics for 1890 and 1891 for some of the chief Joint Stock Hypotheken banks are as follows; the reports do not, of course, distinguish between noble and peasant estates; most of the properties are urban. It will be remembered that many mortgages are of very long term repayable by annuities; so that the mass of business must be divided by ten or more years to arrive at the annual business; also that the average of outstanding loan values is necessarily much lower than that of the value of loans granted, since all loans are under process of repayment by amortization, and therefore vary from full value to nearly zero.

In Nuremberg the bank, which has no power to issue debentures, had outstanding on 31st December 1891, 3,303 mortgages for £7,500,150, averaging about £2,300 each; of these only 866 for £227,160 or £262 apiece, were lent upon land. This bank had to sell up thirty of its debtors' properties for £107,146 during the year.

The Meiningen bank in 1890 granted 444 loans, of which only three were below £50 (urban or rural not known) and 53 below £250, while 157 were between £500 and £2,000. The total outstanding loans of all sorts were 10,618 for £12,923,380. Of these 7,392 were mortgages for £8,848,050 or above £1,200 each; of these 2,162 were rural mortgages averaging in existing value £411 each. Of the 7,392 mortgages, the bank brought 51 to forced sale during the year; this number equals 11 per cent. of the number of loans granted in the year.

The Mortgage bank of Bavaria granted in 1891, 3,244 mortgage loans for £1,806,910, of which 2,359 or 72 per cent. of the number for £660,550 or 36 per cent. of the amount were rural: these latter averaged £280 and amongst them were no less than 154 or 6·5

per cent. below £25 and averaging £21-10-0, and 339 or 14,3 per cent. between £25 and £50 averaging £46; just half the loans were small rural loans below £250 and on these were lent about one-seventh of the total amount. The bank had in 1891 no less than 67,550 mortgage loans in existence for £29,676,080, averaging £439 which, however, did not contain the same percentage of small loans as above, for the report mentions the great development of this class. About two-thirds of the debentures were issued at 3½ per cent. and the rate of interest on the loans was just 4 per cent. There is, however, something *per contra* in this agreeable picture; though the report mentions that there has been a considerable diminution (eine beträchtliche Abnahme) in the number of forced sales (Zwangsversteigungen), yet these numbered no less than 347 in the year under report, of which 122 were at the instance of the bank. Now the average number of mortgage loans granted in a year is less than 3,244, since this was an increase over previous years, while the forced sales were much below those of previous years; if the average loans be taken as 3,000 and that of forced sales by the bank at 150, it follows that in twenty years, which is about the average duration of the loans, there will have been 60,000 mortgages and 3,000 forced sales or 5 per cent. Considering that banks do not lend except where prospects are favourable, that is not a satisfactory state of affairs, and argues either loose lending or reckless borrowing, or both.

Moreover the total of forced sales was 347; as there was a considerable reduction from previous years, if follows that perhaps 400 such sales per annum are not infrequent. But forced sales are mostly due to the debts and embarrassments of the owners, so that, if the average number of loans is 3,000 and of forced sales 400 per annum, it follows that, in spite of the help of the bank, lending, be it remembered, at 4 per cent. per annum and mostly on the system of repayment by annuity, not less than 13 per cent. of the bank's borrowers are annually expropriated either by the bank or by reason of private debts. This shows an alarming amount of embarrassment which even the bank cannot prevent.* The question also suggest itself whether the more summary procedure allowed to land banks in the matter of sale and expropriation is altogether an unmixed benefit.

It is curious that M. Josseau, writing in 1883 of another Joint Stock bank in Bavaria, stated that borrowers from that bank had frequently found themselves unable to pay their debts and had recourse to disgraceful expedients; "these defaulters, whose number "among the rural classes had considerably augmented since 1880, exhaust (dévastent) "the mortgaged lands before completely abandoning them," so that the bank found itself with a worthless security; he adds that the peasants collude in the matter.

It seems clear that, while the bank does lend very cheaply to very small rural folk, it is obliged to proceed to extreme measures against a large proportion, and that there are heavy risks to be run by a bank which deals with small rural folk.

In the Pomeranian bank only 22.8 per cent. of the mortgages were rural, 18.2 per cent being in a single one of the seven provinces over which it lent money.

The Frankfort Mortgage bank had 1,090 mortgages outstanding at the end of 1891 for nearly £2,500,000; the loans averaged £2,290; 15 properties were sold by the bank during the year.

The Prussian Mortgage bank had mortgages out for about £8,750,000, of which only £144,540 were on land.

The Bank of Alsace Lorraine, founded in 1872, and permitted by its Articles to grant loans as low as £15, had only 174 mortgages in existence in 1882, the average existing value, *i.e.*, after deducting all payments to the sinking fund, being no less than £3,376.

It will be seen that, except in Bavaria, the loans for all classes of land were not very numerous, and that while the total amount was not great, the loans averaged an amount much above that which small estates could borrow.

Among the State banks started by the small German States the following may be mentioned. The Bank of Hanover is a royal foundation dating from 1840, when it was started in order to assist landholders in redeeming the feudal charges, tithes, &c., with which they were burdened; in 1842 the duty of granting land credit was added. It is affiliated for purposes of credit to the royal treasury which guarantees it to the extent of £75,000, and it is also allowed to draw upon the treasury to the amount of £15,000 for current needs, if its own resources are insufficient. It borrows by means of debentures at 3½ per cent. interest, repayable every six months on one month's notice. It now lends to all landholders on property valued for taxation purposes at £9 per annum at least as against a former minimum of £45. The ordinary rate paid by borrowers is 5¼ per cent., viz., 3½ interest, ¼ for expenses (calculated only on the amount remaining due) and 1½ for amortization. Borrowers can remit their dues free of postage; they are considered to be in arrears after seven days, and are then liable to interest, a fine, and costs. The bank is under the Home Department, which appoints the staff and directorate. Public notice is given of any proposed loan so as to ascertain if there is any previous mortgage or claim; if none is brought forward within the date fixed, the bank's mortgage takes precedence, even if any should really be in existence; this is the "purge" of the French Crédit Foncier; the bank's correspondence is free of postage except as regards

* In Bavaria in 1882 there were 681,521 separate farms, of which 55 per cent. were below 25 acres. Of the total number of farms about 1 per cent. (6,686) were forcibly sold during 1880, of which one-tenth or 675 cases were due to recklessness in charging the farms with annuities, *i.e.*, probably with loans from banks; another 855 were sold at the suit of usurers and money-lenders.

remittances of money. Its claims against a bankrupt take precedence of all except those of the State. Losses are practically *nil*, and the results of the bank's work on rural interests are good.

The Bank of Hesse Cassel (now part of the Prussian Province of Hesse-Nassau) is amongst the most successful of these small State banks. The province had, in 1885, 822,951 inhabitants on an area about the size of Tanjore. In 1832 the Government established a bank "for the relief of its subjects from ancient debts, and for the improvement of their business position, especially in the redemption of various burdens on landed property and the supply of capital at cheap rates without the costly middlemen, and at the same time for providing good security for those who wish to invest their capital for long or short periods." The bank was in fact necessitated both by the demand for credit and for the carrying out of the law for the redemption of various feudal and other ancient burdens, and it was expressly declared that after these latter needs were satisfied, preference should be given to the smaller class of loans, which, however were not to fall below £15, a minimum subsequently reduced to £5.

The bank was placed under the supervision of the Ministers of the Interior and of Fi.. ce with the concurrent control of the Assembly of State which appointed one of three directors. The bank might obtain funds at interest not exceeding 3½ per cent. from the Savings banks, Corporations, &c., and from the treasury, but its principal dependence was on debentures which differed from the usual type in being repayable at short notice by either party; the State guaranteed all the engagements of the bank, and thereby ensured a cheap and unlimited supply of funds. The loans granted by the bank were usually at 4 per cent. on first mortgage only.

The principality was merged into Prussia after the war with Austria, and the position of the bank was then modified, especially as to its relations with the State, in the adoption of the usual form of debentures, and in the raising of the interest all round by ½ per cent. It remains, however, a State institution under the guarantee of the provincial authorities, and as such enjoys privilege in collection, &c., which only State banks obtain: for instance, all the Revenue officers are quasi-Agents of the bank; they receive and prepare applications for loans, pass their opinion on applications sent to them by the Central office, pay over the loans granted, receive interest and instalments of debts, manage properties taken over by the bank, &c., receiving apparently a commission on their operations; as there are 52 of these offices in the above small area, the bank has large opportunities for the development of a safe business. The bank has also the privilege of proceeding against defaulters through the Revenue officers, as though for arrears of State dues; its position as a State institution explains these privileges.

As stated above, the bank laid itself out from the beginning to lend to small borrowers; in this it has been eminently successful, and its operations bring to mind those of similar banks in other petty States such as Nassau and the Swiss Cantons; proximity and the use either of the State officers or of the communal organizations explain the fact, which is peculiar to these banks, and to the rent charge banks, (*q.v.*). The general average of loans as outstanding in 1883 was £72; this, however, included many of the petty redemption loans, and was the average value, not of loans granted but of outstandings. But the loans granted were, in fact, very small; up to the end of 1867, 32,209 mortgage loans had been granted, of which 2,806 were below £15, and 13,024 between £15 or £45. In 1883, 1,050 mortgage loans were granted, of which 49 were below £15, averaging £13 and 131 between £15 and £30 averaging £26: just half were below £75 and the average of all was about £214; in 1890, 895 mortgage loans were granted averaging £290, and in 1891, 1,070 averaging £225, so that the proportion of small loans was probably similar. On separating urban from rural loans, the smallness of the latter is more apparent; in 1883 the average of the 989 rural loans granted was only £174, so that the proportion of very small loans must have been very considerable. It is, then, clear that a bank *can*, under certain circumtsances, grant mortgages in large numbers for sums so low as £13 equal to, say, Rs. 50 in Madras, allowing for the difference in the value of money. But it is admitted that the small loans are "burdensome and costly" to the administration, and it is probably impossible for a bank to do such business if it is designed to earn profits, unless it is a small bank right down among the people, or a State bank with unusual privileges, and using its regular officers as Agents.*

The loans due to the bank in 1891 were £4,278,590, giving an average per head of population of above £5. In addition however to the bank there are the loans due to a number of Joint Stock Mortgage banks in or near the province, and which lend at 4¼

* The State Land banks of these small States are probably not expected to pay their way, let alone make profits. They pay their way, in that they make no losses, but they are not debited with the whole cost of administration; they are practically worked, so far as the most difficult and costly part is concerned—viz., the enquiry into security, the issue and recovery of the loans, etc.—by the regular officers of the State who are made to do the work as part of their ordinary duties; sometimes a partial remuneration by means of a petty commission is given. The banks were started to meet political needs, and, since the number of officials in small States is usually excessive in proportion to the work to be done—for even these tiny principalities must have their full complement of departments, Ministers, and the like without the imperial, manifold and weighty duties of great States—the banks can readily be operated. A parallel case, though in a great State, is found in the Land Improvement Loan System of this country, in which the *whole* work is done by the ordinary Revenue officers, without a single additional hand except a few clerks, while the borrowers pay absolutely nothing but the bare interest and sinking fund, without one pie for the charges of administration, insurance and the like. The State does not look for profit or even for its expenses, but only to the benefit of the borrower. But it is not banking business.

per cent.; to the Insurance offices which seek investment for their funds, and one of which has lent £36,000 at 4 per cent. in a single town of the province; to the pious foundations, private business houses, church funds, loan offices, &c., two of which are mentioned as having lent £320,000 on mortgage; above to all the 53 Savings banks of the towns, boroughs, taluks and districts, which in 1883 had lent £505,300 in urban and £671,000 in rural mortgages. To these again must be added the Co-operative Associations of the Schulze-Delitzsch pattern, which, so far back as 1883, were at least 22 in number, half being in small localities; six of these latter had 3,743 members, of whom more than one-third were agricultural. Besides these there were, in 1884, 43 Raiffeisen Associations, 15 of which had 1,232 members. When to these are added the loans from private capital, it will be seen not only how great are the facilities in Hesse Cassel for obtaining loans on mortgage, but how enormously the people are indebted. (*See* below *s.v.* 'Switzerland' and the remarks on European indebtedness.)

The bank of Nassau is another flourishing State bank, established in a late Duchy (now part of the Prussian province by Hesse Nassau), which is (was) about 1,800 square miles in area with a population of about half a million. Started with the intention of supplying capital for redeeming feudal and other charges, it became a credit bank, and in 1892 had outstanding on mortgage £2,936,245; in 1892 it granted 1,517 loans averaging £241 each, of which 685 were for sums between £7-10-0 and £75, beside considerable loans to communes and unions; it had 29 agencies apparently the Revenue officers, as in Hesse Cassel. The bank also does a large business in personal loans, in 1892 it granted 1,194 such loans, averaging £72 each, many being quite small. Attached to the bank is a Savings bank which had £901,275 or 58 per cent. of its deposits in 1,978 mortgages; the mortgages granted in 1892 were 63 averaging £16 each. As a rule Savings banks proper cannot do *small* mortgage business.

The bank is merely mentioned to show that State banks can do most excellent business, provided (1) that they work in a very small area and are thus close to their clients; (2) that they have the free use of the Revenue or other State officers as their agents and collectors; (3) that they enjoy privileges of collection and freedom from certain charges.

FRANCE.—For some years prior to 1852, the French Government, not only by its own knowledge of what was necessary, but by the insistence of private persons, of Agricultural Associations and Congresses, &c., had devoted great attention to the demands for rural credit; commissions were sent to enquire into the German methods, discussions took place in the Legislative Assembly, and systems without number were proposed only to drop. Much delay was caused by the impracticability of the proposals which were generally based on a forced paper currency, or demanded the direct intervention of Government in matters of interest and credit, and the establishment of State banks, together with preliminary reforms as regards the law of mortgage, the privileges of landlords, and other amendments of the law. The proposals based upon a paper currency were clearly, if not avowedly, formulated on a study of the Scotch banks, and are a good illustration of the fallacy of formulating proposals based on the consideration of only one, though a salient point in a case rather than upon a survey of the whole conditions. Noting the wonderful success of the Scotch banks and that they were almost alone in their general use of a paper currency, it was supposed that success lay in the "paper" rather than in the prudence and adaptability of the institutions, and upon the fact that they had been developed by natural growth to suit the conditions of the people and of the country, and the demand for capital and credit as it arose. But not only were many schemes visionary and impracticable, but men seemed more concerned to discuss and find flaws in the rival theories and propositions, and to treat the subjects to academic discussion, than to take the initiative and start credit institutions on the lines of the already successful foreign banks. Heedless of the lessons of actual practice and success in conditions at least equally difficult, the philanthropists and rural economists of France dwelt in hopes—each for his own scheme—of impossible success, while subjecting schemes of rivals to destructive criticism, at the same time demanding, as essential preliminaries, various changes in the law and in the economic conditions of the country. The discussions are full of meaning for this country, not in the matters discussed, so much as in the fact that theoretic discussion delayed practice, and that eventually the most successful credit institution of modern times was founded *uno ictu* without the main reforms or aids that had long been declared essential, not merely to success but even to establishment. It is curious, too, to read the appeals made at that period on behalf of economic and social reform, deprecating a too exclusive attention to political matters, which, of whatever importance, ought not to divert attention from others at least equally affecting progress and happiness, and not less worthy of national attention.

The 'Credit Foncier of France.'—The results obtained in Germany by the Landschaften already described were little known in France, the system that is, of long-term credit rendered possible only by the principle of association under the guidance or at least the supervision of Government. In 1835, M. Wolowski, one of the greatest of French financiers and economists, described the German theory and practice in a luminous exposition which gradually attracted the serious attention of economists and Government alike. Ten years afterwards (1845) the French Government directed M. Royer, an officer holding the post of Inspector of Agriculture, to repair to Germany to study the system of the land banks (Landschaften) then in operation, and to report on their working. This officer's able report was the foundation of real work; it described minutely

the mechanism and operations of the chief Landschaften, including, especially, the system of Pfandbriefe or debentures, which were the financial centre of the German system.

The immediate result was a discussion more or less practical, of the means whereby to found similar institutions in France; among the projects discussed, even in the National Assembly itself, were proposals (1) to issue national debentures for £24,000,000 by means of inconvertible paper to that amount, (2) to issue similar debentures payable indeed, on demand, but based upon a forced reduction of rural interest to 4 per cent.

A further study of German institutions was made in 1851, following on which came a discussion of the whole question by an association founded *ad hoc*, which framed distinct proposals for the establishment of a land bank. At this time Government took the matter up, and an elaborate enquiry was held including the examination of economists, financiers, officials, lawyers and projects. The result of these enquiries and discussions was the issue by Government of the law of 28th February 1852, a law which did not actually establish but which favoured the establishment of land credit societies. The objects of this law are the redemption of the mortgage debt of France and the development of agriculture, under the method of issuing loans upon mortgages for lengthy terms repayable by annuities, the loans being financed by debentures secured upon the mortgages and bearing interest; the above work to be done by an association which should accept mortgages and issue its own debentures based upon its own credit and upon the mass of its mortgages; such association to be either an association of lenders (capitalists) having dividends as their principal object, or of borrowers having in view solely cheap credit. Such were the general principles of the law, societies being left to establish themselves, but under the general control of the Government.

Crédit Foncier Society—General History.—In March 1852, a powerful society was formed to work within the limits of the Appellate Court of Paris, and two others immediately afterwards in Marseilles and Nevers, all the societies, after authorization by a Government Commission who revised their statutes and their demands, being placed under the supervision of a special branch of the administration. It was, however, believed that a single society for the whole of France, having branches or agencies in various centres, would command better credit for its debentures than a number of small societies, and before work was fairly begun, the three societies were merged in one called the 'Credit Foncier de France' and received a monopoly, for twenty-five years, of transactions based upon the Act

Various errors were committed at first, and new decrees were required, but in 1854 the society was fairly established and certain restrictions which prevented its financial liberty of action were removed; amongst other things its administration was freed from the direct control of Government Department, and was entrusted to a Governor and Sub-Governor nominated by the Emperor. The society, moreover, re-organized its methods, withdrew its local branches which cost much and produced little, and established relations with the Treasury officers of the departments (districts); it also accepted deposits in account current. Gradually by means of great prudence in administration, of strictness in its examination of proposals for loans, of steady payment of its dues to debenture-holders even in years of war and famine, of moderate dividends based upon genuine profits, and, doubtless of its connection with, and supervision by, Government; it obtained the confidence of the public, and its first heavy loan—by the issue of debentures—for 8 millions sterling was gradually taken up by the public: in 1859 its transactions for the year were above £100,000 in long term loans, about £300,000 in those of short term, more than £2,000,000 had been received as deposits, while its 4 per cent. debentures were quoted but little below par. By this time, the Crédit Foncier was fairly founded and the success of its operations had silenced those, even of high authority, who had predicted that such societies would be a failure; that they were not suited to French ideas, and to the minute division of the soil (a true and subsisting objection), that the Act would be a mere dead letter, and that no society could be formed on such a basis; that societies, operating over the whole of France, must be a failure seeing that in Germany societies were strictly limited in area of action, &c.

The society now entered upon the stage of development. In 1858, at the instance of Government, it assumed the duty of issuing, upon a Government credit for £4,000,000, loans for drainage, hitherto unsuccessfully attempted by Government itself. Again, at the instance of Government it proceeded to the establishment of an affiliated society for 'Crédit Agricole' (*q.v.*), that is for the grant of short term loans without mortgage to farmers, and in 1860 a new law authorized this development and granted the society a special guarantee. In the same year another law authorized it to grant loans to departments, communes and Agricultural Associations. The same year its privileges were extended to Algeria, while another law gave it the control of a great business society. All these extensions were at the instance of Government, and to meet its new liabilities, its share capital was raised to £3,600,000 in 1870. Meanwhile it had distributed good dividends and had formed a reserve of £750,000. The terrible war of 1870-71 had no effect upon its credit, and its whole losses due to the depreciation of property at that time were only £160,000; it steadily progressed in success in spite of public losses and the greatly increased taxes which told heavily upon its own and all classes of business transactions.

A period of danger and loss now supervened, due not to its own operations but to those of the 'Crédit Agricole,' with which it was connected. This latter society abandoned its

true rôle, and had lent nearly £7,000,000 to the Khedive of Egypt; on suspension of payment by the Egyptian Government it was discovered on a Government audit, that beside the Egyptian losses, the society's liabilities exceeded its assets by nearly £1,000,000. Owing, however, to the ability with which affairs were conducted by its able Governor, the Crédit Foncier came out of the trouble with little loss, and its credit, though temporarily lowered, again recovered, so that its shares were soon quoted at a premium.

Its credit being thus established, it proceeded to improve the terms on which it lent. In 1879 it issued an enormous loan for £36,000,000 in mortgage debentures of £20 bearing interest at 3 per cent. with numerous and heavy lottery premia at the periodic drawings; this loan was covered several times over at an average price of £19-11-8, so that the interest payable thereon *plus* the cost of the lottery prizes, amounts to about 3.85 per cent. The proceeds of the loan were devoted to paying off debentures bearing higher interest, and this enabled better terms to be given to borrowers—thenceforward the interest to borrowers was reduced to 4.45 per cent. and the fixed commission of 0.60 per cent. done away with, so that loans were now issued at 4.80 per 100 including sinking fund.

Up to this time (1879) the Crédit Foncier had not greatly extended its operations to rural tracts; its loans were chiefly on urban properties and principally within Paris itself. It now proceeded to re-establish those agencies in the districts, which at the beginning—some twenty-five years before—it was obliged to withdraw as expensive and useless. In 1879 the first country agents were appointed in ten or more centres, with the immediate result that the demands for loans exceeded the powers of the agents to examine them; it was, therefore, resolved to increase the number of agencies and places one in each district (department); about 73 are now at work. The agencies have little power, but act as instructors and intermediaries only: they are not "branches," but agencies, and are paid by a fixed salary and commission. It is under consideration to assist the agents by local committees composed of the chief men of each neighbourhood.

Under the influence of these agencies small loans (below £200) rose in number in 1882 to about one-fifth of the total number of loans granted, the proportion previously having only been about one-twenty-fifth.

About this time (1880-81) the Crédit Foncier took a further development in the formation, under its patronage, of the Crédit Foncier of Algeria, and the Compagnie Foncière of France and Algeria. The former was designed to do for Algeria what the parent society was doing for France: the latter had a different aim which it is important to note. Its object was to facilitate works of improvement and construction, which, when completed, would serve as objects of mortgage with the Crédit Foncier; for instance, it would advance money on proper security to dig a well or make other permanent improvement on waste ground; the property, thus improved or created, would then form a security on which the Crédit Foncier would, if required, advance money to enable the owners to work the property. The Crédit Foncier thus endeavoured to become, not merely a land credit but a Land Improvement Society.

The last noteworthy act of the society that needs mention was the absorption of a rival which arose in 1879 under the name of 'The Mortgage Bank of France;' by this absorption it retained and still retains a practical though not legalized monopoly of the privileged system of loans for long terms financed by debentures, and repayable by annuities a monopoly which, however, thanks to the prudence of its administration, and to the control exercised by Government, has not hitherto been abused.

The success of the Crédit Foncier was due to its intrinsic merits. It was a wholly novel experiment in France, and the idea was extremely mistrusted by many; it was considered not to be consonant with the ideas and manners and customs of France, or with its social or economic condition; it would be a mere name; it required local influence and knowledge; it would find no lenders, and would prove for its borrowers a mere eviction society. Its success, however, was predicted by the cooler heads, who not only saw its success in Germany, but believed that a society which gave capitalists the security not merely of its share capital, but of a mass of mortgages of property worth at least twice the value of the loans, which borrowed by debentures payable to bear and therefore transferable and saleable without cost, which enjoyed considerable privileges and was controlled by the power of Government, would readily find lenders; while borrowers would be attracted by the grand idea of the sinking fund system and by the substitution of a society as a creditor, less greedy than the individual, and requiring nothing but the regular payment of very moderate instalments, comprising both interest and sinking fund. Errors and mistakes did, of course, occur, but the great principles of the sinking fund and the land mortgage debenture won their way to success. The plainest proof of its success is the immediate imitation which it found, not merely in Russia, Austria and Italy, but in Germany itself which had furnished the original generating ideas.

The Credit Foncier differs from its original exemplars (Landschaften) in several principal points. First, it is a society formed by capitalists, who sought a profit on their shares by loans granted to others, while the German banks were formed of or by all the chief proprietors of a province who sought profit by obtaining cheap loans for themselves, and had neither share capital nor dividends. *Secondly*, the German banks were of unlimited liability, having no share capital; the Crédit Foncier is a limited joint stock company and its share capital serves as a guarantee; in both cases, the funds from which loans are granted are funds obtained on the issue of the bank's debentures against the mortgages, which they had accepted, but while, in the German banks, debentures are secured (1)

by the mass of mortgages held by the bank, (2) by the unlimited liability of all the members, the French society's second security is the share capital and reserve. *Thirdly*, the loans of the Crédit Foncier are granted solely in cash, whereas that of the old Landschaften and some of the new are granted in debentures, which precisely represent the loans and are issued to the borrower as his loan; the debentures of the Crédit Foncier, though not allowed to exceed the mass of loans, are issued as required, and not in representation of each loan; this is rendered possible by the possession of a working capital and of deposits. *Fourthly*, the Crédit Foncier had, for twenty-five years, a monopoly of privileges under the Act, for the whole of France, while the German banks have no monopoly even in the provinces where they are established. *Fifthly*, the Landschaften mortgage banks are comparatively local, operating only in moderate areas about the size of one or two Madras districts, whereas the Crédit Foncier is a vast centralized institution extending over the whole of France by means of agencies, which are, however, only 73 in number; this is a fact of the highest practical importance. *Sixthly*, the Crédit Foncier is entitled to act to some extent as a bank, in that it may receive deposits; and it employs part of these in short-term loans. In other matters the Crédit Foncier largely resembles the Landschaften as described above and found ready imitators in the later German land mortgage banks.

Objects, Methods and Administration.—The Crédit Foncier, then, was founded under State auspices and encouragement by a joint stock company in 1852; it was placed at once under a rather complicated system of triple State supervision in the departments of the Interior (Home), of Agriculture and Commerce, and of Finance. In 1854 this supervision was exchanged for a more direct but simpler form of control in the appointment of the Governor and Sub-Governor direct by the Emperor, while three of its Directors were chosen by the society from the chief officers of finance. It thus became a quasi-public institution, like the Bank of France, but retains its position as a joint stock company (limited). It is financed wholly by the public, partly by a large share capital, which is bound to increase up to a certain maximum in proportion to the mass of credit operations; this is chiefly for the purpose of guarantee, but is also partly used for short term loans, an appropriation of the capital which seems of doubtful advisability, and, in fact, the Minister of Finance considers that the capital and reserves should be solely available as a liquid guarantee fund and not locked up in loans.

The society also receives money on current account up to a maximum of £4,000,000, of which one-fourth must be deposited in account current with the treasury, and the remainder invested either in Government paper or Treasury bills, in advances on paper approved by the Bank of France and in discounting ordinary commercial bills. But its raison d'être and its real method of operations are found in its system of long-term loans on real property, repayable gradually by the system of amortization or sinking fund; these loans are financed by means of interest-bearing debentures, the proceeds being lent in cash at interest slightly above that paid by the society to those who can give good security in lands or house property. It borrows generally at something below 4 per cent., its bonds being readily taken and forming a mass of paper current at about par, and maintaining its value even in bad times; this paper is secured by the whole share capital and reserve of the society, and by the mass of mortgages accepted by the society. These mortgages are accepted only up to half the value of the property, estimated under very strict rules, and in themselves form ample security, especially under the system of gradual repayment. The borrowers pay the society (1) 4.45 per cent., which provides not only for interest but for all expenses and profits; (2) a small extra amount for amortization or sinking fund, varying according to the number of years desired by the borrower as the term of the loan, *e.g.*, if he desires to pay it off in fifty years about ½ per cent. is added for amortization, so that his whole annual payment (annuity) for interest, expenses, and sinking fund is only 5 (5.05) per cent.; if he prefers ten years he pays 12½ per cent. all told; if thirty years will suit him better, 6 per cent. (6.1) will cover every due. This admirable method of lending and borrowing enables every person who has property to develop it or his business by means of cheap capital repayable on easy terms, and with no possibility of untimely demands or foreclosure, except in case of the default of the borrower himself. Moreover he can, if he prefers it, extinguish the whole or part of his debt at any time by a lump payment instead of by annuities. In fact the debt only exists so long as the borrower chooses.

The above are the chief objects and methods of the society, but it is at liberty to adopt, with the sanction of Government, any other system to facilitate loans on real property, the improvement of the soil, the progress of agriculture, and the extirpation of the existing mass of debt on real property. It is not allowed to enter into any banking operations, such as advances other than those relating to its own paper and loans on securities accepted by the Bank of France as guarantees for advances.

Privileges.—These are various and important: (1) it enjoyed at starting a Government subvention of £400.000 as a guarantee fund: Government also, as evidence of belief in the society's stability, bought a quantity of its debentures and permitted the Departments to do the same; (2) it is under the immediate supervision of Government in the Finance Department; its Governor and the Sub-Governor are appointed by Government, though paid for by the Crédit Foncier; and three of its Directors must be high Government officers of finance; (3) it has the privilege of using the Government treasuries for the receipt of its dues and the deposits of its surplus funds; (4) it enjoys a reduction of duties in registration, stamps and the transfer of its debentures; (5) its debentures are payable to

the holder, and the Courts cannot take cognizance of any claim by a third party, unless the bonds have been lost or stolen; (6) trust monies and public funds may be invested in the debentures of the society; (7) its mortgages are exempt from the general obligation of decennial re-registration and consequent charges; (8) it has a special and comparatively speedy and cheap method of placing itself in a secure position as first mortgagee free of all possibe claims or privileges of third parties; this is called the "purge," which is a provision of the general law, but under the special law of the Crédit Foncier is cheaper, speedier, simple, and restricted in its scope; (9) it has privileges for the recovery of the loan; the Courts cannot grant the defaulter any delay; the annuity of repayment cannot be attached by order of any Court for the claim of a third party; the mortgaged property can be speedily attached by order summarily obtained from the local Civil Court; during attachment the society has an indefeasible right to all returns from the estate, its privileges ranking after those of the State, and of those of the charges, &c., expended on the estate; in case of any dispute due to attachment, it is decided summarily by the Court; the society can proceed without attachment to sell the property after due notice given and published, if its dues are not paid, or if the property deteriorates, the sale to be by auction at the Civil Court or—by permission of the Court—at a public Notary's office: the proceeds of the sale to be handed over to the society up to the amount of its dues, no adverse claims being allowed.

Such are the general privileges granted to all societies established under the law of 1852. The Crédit Foncier of France having been established, the Government deemed it desirable to grant it a monopoly over the whole of France for twenty-five years from 1852, that is, no other society was allowed *under this special law* till after 1877. The monopoly has not been renewed.

M. Josseau observes that one of the chief obstacles to the introduction into France of land banks was the state of legislation, which gives neither sufficient security to loans nor sufficiently speedy means of recovery; hence it was necessary to give the Crédit Foncier special privileges to remove them from the difficulties of the common law. This point has to be borne in mind; what is a privilege in one country is not needed in another where the common law provides all that is necessary.

Its head-quarters are in Paris, and it has seventy-three agencies in the districts; these latter examine applications for loans and report to the chief office which accepts or refuses the application. All loans are now paid to the borrower in cash and not in the society's debentures.

Capital.—Its capital may arise to £8,000,000 sterling in 400,000 shares of £20 each. The share capital is bound to one-twentieth of the total value of debentures in circulation; the shares are either personal or to bearer, and in the former case are transferred only by an entry in the society's registers.

Reserves.—There are several classes of reserves, of which one is ordinary and obligatory, and must accumulate to a maximum of one-half of the share capital; others are special and optional, and are intended to provide funds for special payments, *e.g.*, for the prizes and bonuses given on the repayment of debentures, and for equalizing the varying returns from their issue.

Organs of Administration.—The Governor and Sub-Governor are appointed by Government, and are well paid by the bank; the former has very great power and responsibility and is the executive head of the society. The Council of Administration (Board of Directors) are nominated by the general assembly, but three (out of twenty-three) must be public officers of finance (Trésoriers payeurs généraux des Finances). The Directors are not salaried, but receive honoraria for each meeting. Their duties are those of the general administration of the society, its development, and its transactions of all kinds, but none of its decisions is valid or can be executed if not approved of and signed by the Governor. The Directors incur no personal responsibility for acts done by them as a council.

The Auditors or Committee of Control (Censeurs) are three in number, and form part of the Board of Directors; they are elected by the general assembly, hold office for three years, one going out each year, but are eligible for re-election. Their duties are not those of mere audit; they form, rather, a committee of supervision watching over the strict observance of the statutes, the issue of debentures and their relation to loans issued, &c.; they audit all the accounts, verify the cash and securities in hand, and can demand a general extraordinary meeting. Their services are not salaried, but, like the Directors, they obtain honoraria.

The Governor must hold 200 shares of the society, the Sub-Governors, Directors and Auditors (Censeurs) 100 each. Their shares are inalienable during the term of office, are stamped with a special seal to show this fact, and are deposited in the society's safe.

The general meeting represents and binds the whole body of shareholders, but consists only of the 200 largest shareholders, 40 form a quorum, provided they hold one-tenth of all existing shares. It is held once a year, but may be otherwise, convoked; it deals with the annual report, passes or rejects the accounts and fixes the dividend; it elects the Directors and Auditors, and decides upon questions of increasing the capital, modifying the statutes, &c. Such propositions are only made by the Governor, usually after discussion by the Board of Directors, and are subject to the confirmation of Government.

Loans.—Loans are made generally only as a first charge upon property, but may obtain this position by redeeming prior charges. No loans are made on theatres and

mines, or on any undivided properties, unless the whole property is pledged with the consent of all co-sharers, or on properties in which the usufruct and ownership are not united, unless all persons interested join, or on properties which have no certain income. Loans can only be given to one-half the estimated value of general property, and one-third in case of vineyards, woods and plantations. The rate of interest on loans must not exceed by more than 0.60 per cent. that paid on the society's debentures issuing at the time of the loan. The annuity payable by the borrower includes the interest and the sinking fund, and is payable every half year on 1st January and 1st July; interest at 5 per cent. is charged upon arrears, and after a month's delay the society may demand the repayment of the debt in full. Borrowers may repay their loans in advance, either in part or in full, either in cash or in debentures of the society of the series in which the loan was granted, which are accepted at par whatever their market value. On receipt of such repayment in advance, the society must wthdraw from circulation a corresponding amount of its debentures, since the total of its issues must not exceed that of its outstanding loans; to cover any probable loss on this withdrawal and any delay in re-investment, a payment of ½ per cent. on the amount repaid in advance is demanded.

A borrower is bound to inform the society of any alienations of his property in whole or in part, or of any deteriorations, decrease of value or other possible causes of loss; in default, the whole debt may be demanded as well as an indemnity as above. Concealment of any mortgages or other charges produces the same liability. The usual provisions are made as regards insurance of properties liable to fire, &c. All properties are valued upon the deeds, produced by the proprietor, but the society may order a local valuation. All costs are charged to the borrower whether a loan is effected or not.

Debentures.—The society's debentures are either personal or to bearer; the former are usually transferable by endorsement. The capital resulting from the issue of debentures must not exceed the total of the loans granted by the society; pending employment the funds must be placed in certain specified classes of stock. The debentures must not be below £4 and are issued from counterfoil registers, each being stamped, signed by a Director and countersigned by the Governor. They are repayable by periodic drawings, determined by lot, the total value redeemed being equal to the amount paid in by borrowers on account of the sinking fund, so that the remaining debentures may not exceed the amount remaining due by the borrowers. Drawings are effected by the Board of Directors in presence of the Auditors (Censeurs) and the numbers drawn are duly published; the bonds drawn are at once cancelled and destroyed in the Governor's presence, and the fact recorded.

Profits.—Profits are divided as follows: 5 per cent. as fixed dividend to the shareholders; from 5 to 20 per cent. of the remainder to the ordinary reserve; part, if necessary to any special reserves, and the remainder is divided amongst the shareholders. If the fixed dividend of 5 per cent. cannot be provided from the net profits, the regular reserve is drawn upon.

*Statistics.**—In December 1890, the society's capital was £6,820,000, divided into 341,000 shares, among £26,642 shareholders, and paying a dividend of 12½ per cent. Its ordinary reserve was £685,000 and its special reserves £5,440,000. The *net* profit was £888,000; its expenses of administration £165,000, and the amount of taxes (income tax, license fee (patente) as a commerçant, taxes on debentures, &c.) no less than £462,000 (11,555,544 francs), part finally payable by the society, part recoverable from the holders of its shares and debentures. Its mortgage loans for the year were £3,310,000, of which only £37,000 were from the capital and reserves. Communal loans were also granted for £3,081,000. The value of the mortgage loans in actual existence in December 1890 was a little over £80,000,000, while the actual value of the society's debentures representing such loans was about the same amount; the loans, however, included about £2,400,000 from capital and reserve. The communal loans and debentures similarly in existence were £46,540,000 and £40,000,000, respectively. Deposits in account current received interest at ½ per cent. per annum and amounted to something over £3,000,000, the receipts and disbursements of the year under this head being nearly £22,000,000. The society also received for safe custody bonds of the society and other paper for £35,000,000 on which they acted as agents for drawing the interest.

Repayments in advance were made by borrowers to the amount of £4,500,000, and operations generally were so slack that interest was reduced in order to bring in business. Arrears on 31st December 1890 were due on mortgage loans for £901,152 or 16 per cent. of the total interest due; of this about one-sixth was due from *before* 1890.

Since 1853, the society has granted 77,536 mortgage loans for about £139,000,000 sterling each averaging £1,793; out of these 77,536 loans, 39,388 or above half were for a term of sixty to seventy-five years, the other loans being for all periods from ten to sixty years. Again, 31,952 of these loans, value 87⅓ millions sterling, were in Paris and the department of the Seine only, leaving only 45,584, value £51⅓ millions, for the whole of the rest of France. Still more noteworthy is it, that 55,034 loans for £110½ millions were on solely urban property only, 22,161 alone for nearly £28 millions being solely rural, and 341 mixed. Again, all loans seem to be on the decrease; in 1882 the number of loans was 7,398 for £13,208,528; in 1883 there were 6,771 for £10,155,120; in 1886

* Round figures only are given.

4,322 for £6,752,384; in 1890 2,925, for £3,309,632, and each intermediate year has shown a decrease. Moreover in 1882, 1,581 loans were for sums below £200, the average of such being £132 per loan; in 1890 there were only 829 averaging £131, each successive year showing a decrease. The total number of loans below £200 is only 18,059 out of 77,536 and average £130; 16,577 communal loans have been granted since 1860 for £78,720,000; these have greatly developed since 1884; as usual the department of the Seine heads the list with 353 loans for nearly £28 millions, leaving only about £50 millions for the remaining 16,224 loans. It may be said that Paris and its environs followed, at long intervals, by the other towns have absorbed the great bulk of mortgage and communal loans.

Loans have, it is thought, been granted of late years too freely from the capital and reserve, and though fully guaranteed on the whole, yet land has been valued in some cases in excess, so that the security was insufficient; moreover some district agents are said not to have been as careful or honest as the principal authorities (' Times ' of 30th June 1890). But the bulk of its operations have been well carried out, and its position seems perfectly secure.

Coercive Process.—The Crédit Foncier has not escaped from the necessity of coercive measures to a considerable extent, notwithstanding its cheap loans and favourabe terms of repayment. Its arrears on 31st December 1890 were 16 per cent. of its demand, of which about one-sixth was of more than one year standing (pour les semestres échus antérieurement à l'exercice 1890), and it is therefore not surprising to find numerous annual expropriations. On the 1st January 1890 it had on hand 486 properties as the result of forced sales for arrears; of these it sold 86 during 1890, but acquired 140 more, so that it ended the year with 540 properties in hand; regarding which the report states that it would be necessary for them to fetch a price on resale of £1,142,068 to avoid loss to the bank. Of these 540 properties, only 3 were in Paris which has absorbed by far the greater part of the loans, and 528 in the provinces, showing how difficult it is to obtain thoroughly satisfactory work except at the head-quarters of a land bank. Moreover out of these 540 properties 339 were rural and 201 urban, though only one-fifth of all loans were rural and four-fifths urban. Of 322 rural properties or parcels (France only, excluding Algeria) 90 were small, apparently vineyards; the total area of these 322 properties was 32,077 acres. It is noteworthy also that the result of management of the properties gave only 2.4 per cent. net, as interest on the amount due as arrears, so that they were being managed at a loss to the bank, compared with the loan value of money. It must also be noted that properties are continually being sold and others bought in; in 1890, 86 were sold and 140 bought in; hence the 540 properties in land merely represent the expropriations of the past four or five years. There were granted during the five years ending 1890 18,551 loans, to which 540 expropriations are in the ratio of 3 per cent.; the 140 expropriations of 1890 are to the new loans of 1890 in the ratio of 4.7 per cent. There are, in addition, the properties sold by the society and bought in by third parties of which no statement is discernible in the report, but which must be very considerable; there must also have been much coercive process through the Courts, not arriving at attachment or expropriation. It will be seen then that cheap loans and easy modes of repayment do not protect borrowers who borrow without due consideration, or for other than productive purposes; in fact the report of the controlling committee (Censeurs) states that arrears and expropriations have, of late years, shown a continuous increase; that is in spite of cheap money, and seems to be due to the diminishing value of rural produce owing to the fall in prices.

Miscellaneous.—It remains to mention briefly the operations of the Crédit Foncier of France other than those of direct mortgage loans. These operations are with (1) public bodies, (2) the Crédit Foncier et Agricole of Algeria, (3) the Compagnie Foncière, (4) the fund for drainage. The third and fourth sections will be discussed *s.v.*, ' Land Improvement.'

By a law of 1860 (appendix) the Crédit Foncier was empowered to lend to departments, communes, associations, and other public bodies. Modern administration compels local Boards or other administrative units, to meet the public demand for roads, sanitation school buildings, education, and the like; these requirements cannot be properly provided from current funds; the treasury could not supply loans in sufficient amount, nor are the terms of private lenders suitable. If the various boards and councils could not get long term loans at moderate interest and on easy terms of repayment, they could not carry out the needed and even obligatory improvements. The Credit Foncier was, therefore, empowered to issue loans, with or without mortgage, to the various public bodies above mentioned, the result being that in thirty years no less than £60,665,000 have been lent in 15,330 loans to the communes (of which there are 36,139 in France), about £7,750,000 to the departments, about £4,350,000 to associations, about £5,250,000 to Chambers of Commerce, and so forth, the aggregate being £78,723,000. These loans are granted at 4.3 and 4.4 per cent. for terms from five to fifty years, the amortization varying according to the term. The loans are financed by communal debentures issued by the society in the usual way. A similar institution for India will soon be a necessity.

(2) The ' Crédit Foncier et Agricole ' of Algeria is an offshoot of the Crédit Foncier of France and was established in 1860. In that territory interest was very high, the legal rate being 10 per cent. and much more being demanded; hence the society can demand up to 8 per cent. as against 4 or 5 per cent. in France. The funds for loans are generally supplied by the parent society, but it can also lend from its own capital.

The objects of the society are the same as those of the Crédit Foncier of France, but there are additional operations, such as the opening of cash credits upon mortgage in cases where the society accepts mortgages on property which would not be accepted as security in France, *provided* that the loan is laid out on the improvement or clearance of the soil, construction of buildings, &c. By this method, a farmer can raise a loan upon a piece of ground in itself worth little, but capable of development, say by digging a well, into a valuable garden; this is mortgaged to the society, not for half its actual value which would be trifling, but for half its potential expected value, and the amount is then placed at the disposal of the borrower by a species of cash credit, against which he can draw; each drawing is subject to proof that the work is under construction. The rules resemble the special rules for the construction of wells in Madras. These cash credits for improvements are also opened on a simple bond with sureties, and then resemble the Scotch cash credits. This new operation is peculiarly suited to an unimproved country.

The Algerian society has also the right to lend on crop and on warrants for goods deposited in its warehouses; to aid in founding societies and associations for various industrial enterprises, by supplying funds " en commandite "; to lend to communes, &c.

Up to 31st December 1890, *i.e.*, in thirty years it had granted 4,944 loans from funds supplied by the Crédit Foncier of France, and from its own funds; the average of the loans was £675; 1,984 were below 200, and averaged £142.

The dealings of the society with land improvements (drainage, &c.) will be dealt with *s.v.* 'Land Improvements' (*q.s.*)

AUSTRIA.—In Austria up to 1848 the peasants in general labored under many feudal difficulties and could not raise a loan on mortgage without the consent of the lord; the result, however, was that the land they held was not encumbered by much debt. After that date corvées were abolished with other feudal burdens and disabilities, for which, however, the peasants had to pay heavy commutation charges, while the taxes became weightier, and prices, of late years, have fallen seriously. These causes, coupled with other influences, such as the law of equal inheritance, the increase of the population, the great rise in the price of labour, &c., have everywhere caused a demand for capital, the burdening of the land, and, in the absence of organized credit accessible to small and middle folk, a general resort by such classes to the usurer. For instance, according to official returns, the registered mortgage debt on " small holdings " increased between 1867 and 1888 for nine out of 18 provinces, from £114,106,330 to £161,987,507 or nearly 42 per cent. These figures are for nine provinces containing two-thirds of the inhabitants of the empire, so that the total mortgage debt of the empire, including urban debt and that on large properties, must be immensely greater.

For the larger properties there are certain mortgage banks, but for the middle and small holders, these are not available; the requirements of the banks are so rigorous, the risks attending small mortgages so great, the expenses attending small loans so disproportionate, that small folk have been, till lately, thrown back upon the local source of capital, namely, the usurer, who " devours " them; they are described as everywhere dependent on the Jew usurer, and subject " to the repacity of the vampires which, while " suckling their blood, evade the clutches of the most stringent laws." The problem of supplying cheap credit to the smaller folk is consequently engaging the earnest attention of " ministers, noblemen, members of Parliament, great land-owners, economists and professors," not without some success, though not from the side of land banks proper, but from that of Savings banks and co-operative societies; on the one side through the demand of the Savings banks, under the system of a free employment of funds, for safe local investments, and on the other through the devotion of practical reformers, who, hearing of the German co-operative credit system, have sat down in the towns and villages and worked out for themselves and for their neighbours a local solution of the problem. (*See* 'Co-operative banks' and 'Savings banks.')

The land bank system, however, affords suggestions which may prove useful in India. There are four classes of land bank proper—

(1) Associations of proprietors;
(2) Ordinary joint stock mortgage banks, which need no detailed notice;
(3) Savings banks;
(4) Provincial land banks.

There appear now to be only two of the first category, one having failed in 1884. The second class are much more numerous, but tend chiefly on large and urban properties. All Savings banks, which are quasi-public, and are established by the communes, taluks and districts, invest a large portion of their funds in mortgages; in 1881 about £42,000,000 had been thus lent out, being about five-eighths of the deposits; figures are not available to show to what extent they grant very small loans, but as there were, in 1889, 414 in Austria proper, one for every 57,719 persons, they may have done a good deal; the prevailing interest on these loans is from 5 to 5½ per cent., at which rate they averaged about 1 per cent. profit. The fourth class are six in number, and are practically State banks. In addition to these banks, there are the ordinary banks of the country which, with other classes of business, also grant loans on mortgage; these are about 41 in number, and are headed by the Austro-Hungarian National bank, a quasi-public institution, in which the land mortgage department is kept distinct from the other business of the bank, with a special committee, and a Government Commissioner, who has powers of veto in case of any irregular proceeding. In virtue of its quasi-public status, it enjoys certain moderate privileges; the State intervenes considerably in its affairs, and partakes of its profits; the

Governor and two Sub-Governors, as well as two Commissioners and Sub-Commissioners, are appointed by the Emperor, the latter for the purpose of supervision and audit.

Capital and Reserve.—The Bank of Galicia, belonging to the first category and founded in 1841, has no capital but only a guarantee fund provided by the Provincial Government. The Rustical-Credit Anstalt of the same class has a share capital, to which all members must subscribe in the proportion of one-twentieth of the loans they receive; hence it is a varying capital, intended merely as a guarantee fund. In the banks of this class liability is limited; in the first named to one-twentieth of the value of the mass of mortgages, in the second to five times the value of their shares. The reserve is formed in the first of these two banks by crediting the whole of the profits to it; in the second by the entrance fees, part of the profits, &c. The mortgage banks have the usual share capital and reserve, needing no remark. The Provincial banks have no capital, but are guaranteed by the Provincial Governments.

The land credit branches attached specially to certain Savings banks have a special reserve fund formed from the profits of the operations, as well as a considerable guarantee fund granted by the Savings banks, which have, however, the right of withdrawing the guarantee fund as the reserve proper accumulates.

State Guarantee.—This is found only in the public or quasi-public institutions of the first and fourth categories: details will be found in the sketches of these banks given below.

Mortgage Debentures.—These are similar to those of Germany with one or two peculiarities. Some banks issue their loans in cash as well as in debentures; hence, in order to finance such loans, they must, in the absence of other capital, issue and sell debentures in advance, and the mass of debentures may, therefore, exceed the mass of mortgages. This is not allowed in Germany, and it is only permissible where there is a sufficient guarantee fund; a very moderate limit is also fixed for such excess.

Debentures must not be issued by joint stock banks beyond a certain varying multiple of the capital and reserve, usually twenty times the paid up capital, but occasionally as low as five times. Apart from the chief guarantee of these debentures, viz., the mass of mortgages, it is found that the capital and reserves specially set apart as additional security are equal to about one-eleventh of the mass of debentures in existence; this was in 1882, and the proportion is probably not very different now.

Since most of the banks carry on all classes of banking business, the debentures in such banks lack the complete and special guarantee possessed by the debentures in land banks proper, viz., the whole capital, reserves, &c., of the bank, and the mass of mortgages; the holders rank only with the other creditors. This defect is remedied by a special law (1874), which enables banks to determine and declare particular parts of their capital and business as special securities for the debentures; these items must be expressly mentioned in their Articles, and where so mentioned, such portion of their assets cannot be otherwise charged or disposed of without the special consent of the Government Commissioner for banks, who can refuse his consent if necessary. In case of bankruptcy, this portion of the assets forms a separate fund for the payment of debenture-holders. The Austro-Hungarian bank provides that half the mass of mortgages, and all the movables and immovables of the bank shall be the security for the debentures, and, if necessary, so much of the capital as corresponds to one-tenth of the debentures. These provisions give the debenture-holders a privilege which ranks them above all other creditors of the bank.

The rate of interest on the debentures is usually 4 to 5 per cent.; 4 per cent. scrip of the National bank was in 1890 quoted at par, and 4 per cents. of Provincial land banks at about 98, while Austrian State Paper at 4½ was quoted at 88.

Loans.—There is nothing here of special note, except that loans are frequently granted in cash, so that the interest is of varying rate as agreed upon from time to time. This interest is generally between 5 and 6 per cent. In 1889 the outstanding mortgage loans by the 51 banks—exclusive of Savings banks—which granted real credit, were valued at £47,385,467 as against £48,831,264, the pound sterling being taken as 12 florins. The similar loans by Savings banks are not known, but in 1881 they were above £41,000,000, or five-eighths of the deposits.

Profits.—It is noteworthy that the ten regular land mortgage banks, six being State (Provincial) banks, three annexed to Savings banks, and one quasi-State, obtained very small profits, though doing a large mortgage business; in 1889 their net profits, after deducting all expenses and taxes, were only £42,860 upon a mass of mortgages of not less than £16,000,000 (exact amount not known), and most of this went to the reserves. In other words, the mortgage banks of this class have only the interests of borrowers in view and reduce the cost of loans to a minimum while strengthening their own position and safety; they have no dividend, and therefore no reason for an interest higher than necessary.

Taxation.—This is heavy; for all banks together, including all mortgage banks, the taxes in 1889 amounted to close upon one-fourth (24 per cent.) of all expenses. They are not precisely specified for the land banks, but for the National quasi-State bank the taxes are (1) those on its dividends (a sort of income-tax), in addition to the stamp duties on the interest coupons; (2) tax on loans on pledge; (3) tax on interest coupons of securities owned by the banks; (4) direct taxes on all its immovables. These are general taxes and not peculiar to the National bank.

Government supervision.—In Austria all banks are supervised by the State; their Articles "must be approved by and their balance sheets submitted to officials appointed to examine them." But it varies from this amount of supervision to actual administration

according to the nature of the bank. That exercised by the State in the case of the National bank with its Land Credit department has been mentioned above; that in the three chief classes of regular mortgage bank will be gathered from the three sketches which follow.

Privileges.—Land banks enjoy no fixed privileges except that of freedom from stamp duties and taxes on the issue and transfer of their debentures; the interest coupons thereon must be stamped. They enjoy by a decree of 28th October 1865, certain privileges of judicial procedure, with a view to moderate the ordinary delay and charges, but they are not very considerable, and certainly would not be greater than those granted for Indian Small Cause Courts. Certain banks obtain particular privileges, whether of State guarantee or as shown in the typical sketches below; the quasi-State National bank in its land branch is alone permitted to collect arrears of annuities by the procedure adopted in collecting arrears of direct taxes. The debentures of the land banks are also expressly declared eligible for the investment of trust funds.

Typical banks.—The three sketches following give a general idea of the establishment and working of a bank of each of the three principal classes, viz., (1) Associations of proprietors; (2) Provincial land banks; (3) Joint stock banks.

Boden (Land) Credit Association of Galicia.—This was founded in 1841 jointly by the several districts of the province, under Imperial patronage and by the special exertions of Prince Leon Sapihéa. Galicia is almost entirely a province of large proprietors who form the members of the bank, and the association therefore resembles the Old Landschaften of Prussia. It was granted for the expenses of first establishment, and as a reserve, an endowment from the surplus of a sum voted for a regiment of lancers, and from funds voted for an abandoned project for establishing communal granaries; this fund is kept as a reserve. The districts of the province also guaranteed the engagements of the bank with all their property and income, but are entitled, in their turn, to recover all payments on such account with interest and expenses from the debtors of the bank. This guarantee, though but a form, is considered dangerous in large States; an endowment is usually considered preferable to a guarantee, except in small States where their operations can be duly supervised by the guarantor. The Directors are partly chosen by the Provincial Diet, which also appoints the President and Vice-President subject to the Emperor's confirmation. The States-Council also acts as a committee of supervision with all the usual powers. The Articles and any alterations are subject to the approval of the Diet. The area of operation is also divided into circles, each with a special local committee of administration under the central committee, to which all decisions must be reported. A Royal Commissioner is also nominated to each local committee and to the central committee, with the power of veto in case of irregularities, but not of vote. The reserve is formed from the above endowment fund, and from all the odd sources of gain not assignable directly to the repayment of debentures. In case of dissolution of the bank, the State reserve is paid over to the State which must devote it to some work of public utility. The funds of the reserve must be invested in purchasing the bank's debentures, or in advances for three months upon them.

Loans are granted for not less than £83 (1,000 florins) and are paid to the borrower in debentures of from 100 to 10,000 florins each, to which are attached twenty half-yearly interest coupons. These coupons are payable each at maturity, and form a species of currency by the following device; when a debenture is repaid or bought in, the bank withholds from the price the value of any unpaid interest coupons not returned with the debenture; thenceforward it pays such coupons whenever presented, even though the principal of the debenture has long been repaid. Debentures bear interest at 4 and 5 per cent., and in 1882 were quoted at 90 and 98 per cent., respectively, but are now probably higher as all land bank scrip has risen. The loans are repaid by annuity composed of interest either at 4 or 5 per cent. corresponding to that of the debentures, 0.25 per cent. for the expenses of administration and the sinking fund; the borrower must pay a lump sum of 3 per cent. of the loan to go to the reserve, and must pay the first half-year's instalment of the annuity in advance.

The bank can proceed either by executive or by judicial means against all the movables of a borrower in arrears; the exact methods are not stated in the decree, and must therefore follow the general law. But whenever a borrower is in arrears he is liable to pay six months' interest upon the amount in arrears. Any dispute as to the accounts is to be submitted to arbitration, and the States Council is named as the arbitrating authority in this and all other cases of dispute; from its decisions in all cases an appeal lies to the Appeal Court at Lemberg, and thence to the Supreme Court at Vienna, but the decree of each authority can be provisionally executed notwithstanding an appeal.

The bank may also call in its loan if the property is seriously mismanaged, or if within two years the borrower has been thrice threatened with distraint.

The debenture-holders are secured by the mortgages and reserves of the bank and by the rigorous punctuality with which the bank demands payments from its debtors; in case of non-payment of interest a debenture-holder has summary powers against the bank or against the property of the States which guarantee the bank.

Various privileges have been mentioned to which must be added that of freedom from stamp duty on the debentures and their transfer.

The association is doing good work, and in 1882 had loans existing for £4,000,000.

The Provincial Land Bank of Moravia.—This is a State bank and was established in 1880 by the Diet of Moravia, to lend to local proprietors capital obtained by the issue of debentures to the amount of the mortgage loans. The bank is endowed with a sum of £4,000

(50,000 florins) and its engagements are guaranteed by the State. It has no capital, but is bound to form a reserve of £41,000 (half a million florins) from the whole of its net profits after deducting expenses; such reserve to be invested in first-class securities only. Any surplus after the reserve is full is to be expended by the Diet in some work of public utility.

Debentures are of the usual class; in case the bank falls into arrears, its creditors can either petition the Provincial Assembly or file a suit.

Loans are granted on the usual terms, the interest being equal to that paid by the bank on its debentures; the borrower must pay, in addition to interest and sinking fund, a charge of $1\frac{1}{4}$ per cent. per annum upon the *unpaid* amount of the principal, and a sum, once for all, of 0.25 per cent. of the loan on receipt; these two charges are for the expenses of administration.

When a borrower is in arrears the bank must give him written notice, non-receipt of which, however, does not shield the defaulter from process; no special powers seem to be granted. The bank can proceed for the recovery of the whole loan if the property is seriously mismanaged, or if three consecutive half-years' dues are in arrears; the methods are by judicial proceedings.

Loans may not be granted below £25 or beyond two-thirds of the value of the property mortgaged; such value is calculated at twenty times the net taxable income, which is usually much below the real value.

The bank is granted "the same immunities from taxes and imposts, and the same "facilities in judicial procedure as are granted by the existing law to similar institu- "tions." As stated above, the fiscal exemptions are those from all duties on the issue and transfer of debentures, and the legal facilities would not, in India, be considered remarkable. The bank may not purchase properties save in exceptional cases, and then only with the sanction of the provincial assembly and from a reserve kept for current expenses.

The bank is managed by the usual board, the members of which are elected by the Diet; of these the Manager and Secretary alone are paid.

The Provincial Assembly has large powers of supervision; it must provide for periodical returns on all the affairs and accounts of the bank, especially regarding the debts and debentures; the returns must be based on inspections which must be at least twice a year; it also considers alterations in the articles, proposals to draw from the reserve, the remuneration of office-holders, the repayments of debentures, &c., and, in its executive capacity, it sends delegates to attend to the issue of debentures and to any special valuations for loans. As noted above, it also receives and adjudicates on petitions regarding any failure of the bank in its engagements (*cf.* the duties of the "fourth section" in Italy).

The Provincial Diet has the superior right of supervision; it appoints the *personnel* of the bank and fixes its remuneration. The Provincial Assembly must report annually to the Diet upon the position, loans and debentures, and current affairs of the bank.

The Imperial Government has, in addition the supreme supervision of the bank according to the general Austrian law.

The Austrian Boden Credit Anstalt.—This is a land mortgage bank of the type of the French Crédit Foncier; it has a nominal share capital of 24 million florins in 120,000 shares, of which 9,600,000 florins are paid up; its reserves, general and special, are of nearly equal amount. It pays high dividends which reached 15 per cent. in 1890, and its 4 per cent. debentures, so long ago as 1881, were quoted at 94, and are doubtless much higher now; its 3 per cent. debentures, payable with a premium, were then quoted at 99 to 102.

The bank grants loans not below £50 on mortgage and to public bodies, but the total must not exceed thirty times the paid-up capital. The debentures issued must not ordinarily exceed the amount of the loans granted, but up to £200,000 the bank may issue debentures in excess upon setting apart securities specially charged as guarantees.

The administration is conducted by a board of directors; this is presided over by a Governor with two managers, who are nominated by the board, but appointed the Governor by the Emperor, and the managers by the minister under whose supervision the bank is placed. The supervisors are elected annually by the general meeting.

There is also a Government Commissioner, who specially controls the issue of debentures which he must countersign, and who watches over the regularity and legality of business, for which purpose he can oppose any Act or resolution which seems contrary to law or to articles, and can refer the matter for the orders of Government.

This bank had about 12 millions sterling (150,000,000 florins) in mortgages in 1890.

HUNGARY.—The Land (Boden) Crédit Institution of Hungary is a well-known quasi-public mutual institution founded by a number of great proprietors and intended solely for the benefit of land proprietors; it has no share capital and no dividends, all profits going to the benefit of borrowers; it has a "foundation" capital of about £140,000 in cash and security bonds furnished as a philanthropic venture, and bearing a very moderate fixed interest, by 209 wealthy men; it has a Government subvention of £41,666. is under Government control, and enjoys certain privileges. It is organized, worked, and financed after the now usual European fashion, lending in sums not less than £83. Its so-called privileges are freedom from income-tax and from stamp-fees on its debentures, with summary procedure through the Commercial Court in the recovery of arrears. There are also joint stock institutions—non-privileged—of the usual character. The Boden credit institution has been mentioned by writers as likely to serve as a model for India, and the

privileges granted by Government are quoted as precedents; it must not, however, be left out of sight that it is not a joint stock but a mutual or co-operative society; its promoters started it with a patriotic view, and are even losers by it since they get no dividends, and the interest on their foundation shares—intended as a first working and guarantee capital—is, or originally was, below Hungarian market rates. The Government privileges of the exceptional nature of those in Hungary are warranted by corresponding self-denial in the grantees; "neither the founders nor any members of the institution have any claim "to dividends, the officials do not receive a tantiéme (proportion) of the profits, and the "board of directors give their services free of remuneration"; there was no intention of "making it in any way a paying concern to those who had founded it" (Commercial No. 9-1891); "it was an act of national sacrifice, a philanthropic institution, founded by "the munificence of the aristocracy and clergy (M. L. de Wagner; Enquête sur le Crédit "Agricole, 1884-85)." Moreover the price of Government aid is very strict Government control; "it is alone among Hungarian Mortgage Loan associations in being under "such direct Government control." The privileges, moreover, are not so considerable as supposed; the relief from income-tax is indeed considerable, but this is allowed, as in the case of the German Landschaften, because the association is a mutual loan society, established not for dividends but for mutual aid, and, in fact, deriving no direct income from its operations; the Government subvention of £41,166 goes straight to the reserve and is not to be touched; its general operations with borrowers are not exempt from stamp duty, but only the interest coupons of the debentures issued by it; the necessary stamp duties on loans are expressly mentioned on page 15 of Commercial No. 9-1891, para. 7 *a*, *b*, *d*, and are rather heavy. Nor is it clear what privileges it has of recovery; instead of having to use the ordinary Civil Courts, it acts, indeed, through the Commercial Court by which it obtains summary and cheap execution not only upon the mortgaged property, but on any of the debtor's movables or immovables; but even this, for Hungary, cheap and summary procedure is said to be "rather complicated" (Commercial No. 9-1891, as will have been seen in the case of the German Landschaften. It is further to be remembered that all banks in banking matters enjoy in Europe the use of the Commercial Courts with their cheap and summary procedure; this privilege does not belong to this bank alone, but to all banks and business firms and to "commerçants" (business persons or entities, duly licensed) in general. As for its loans, they are practically confined to the larger and medium cultivators, for whom the bank was started; it does not help the small folk (M. L. de Wagner, *op. cit.*); in fact its statutory minimum loan of £83 postulates a property of 50 acres; and this minimum is, in practice, never even approached. In twenty-six years up to 1889 £13,953,981 had been granted in 11,329 loans or about £1,230 per loan: only half of these were below £260, and, therefore, absorbed probably less than £1,000,000 of the amount.

Beyond the privileges accorded to this society, to the Austro-Hungarian bank, and to the society for small proprietors, started in 1880, Government gives no privileges or assistance in the way of credit to agriculturists. It may be added that, according to a French consular report of 1884, the proprietors in Hungary are notoriously unpunctual in payment and require the "severe and summary methods" granted by law to these special institutions.

There is, however since 1879, a special institution for the relief of small proprietors also due to the munificence of the richer proprietors, clergy, &c., and equally aided by Government, in which the minimum loan is £25; State supervision and privileges are similar, and the business got through not very great, being only 9,726 loans for £925,750 in ten years; above one-third of the loans averaged £33; the interest including charges and amortization is now only 5½ per cent., which, for Hungary, is very cheap. As the average of loans is below £1-10-0 per acre, no one with less than about 18 acres can hope for a loan of even £25; as a matter of fact, seven-eighths of the money is given, even in this special bank, in loans above £42 and averaging £132, and it is significant that whereas the bank started with a maximum of £500 for its loans, that maximum has now been increased to £1,666, showing that the bank is tending to large business rather than to small, just as in the case of the 'Crédit Foncier Egyptien.' It should also be noted, in evidence of the recognized difficulties in the matter of small properties, that loans were granted only up to 42 per cent. of the value of the property mortgaged, as against above 66 per cent. in the larger institution (Boden credit institution) in the same country.

In addition to the above, a law was passed in 1889, to enable the land credit institutions, &c., to open credits for the improvement of land apparently after the plan of 'La Compagnie Foncière' attached to the Crédit Foncier of France, or to the Land Improvement banks of Germany.

Agricultural loan societies, especially those founded by the various communes, are also favoured; these latter seem to have the germ of a great and useful development in them; the communes form loan societies jointly guaranteed by the members of the communes (*cf.* Switzerland), and these are in communication with a larger institution founded by the district. This plan was only devised in 1887, and by 1889, 47 had been started. Nothing is known of their working, but they are evidently a class of co-operative society, being called 'Genossenschaften.'

ITALY—*Preliminary.*—Rural credit in Italy is peculiarly interesting to the Indian student, and that branch of it which deals with land has lessons which may not be neglected. The Italian farmer tills the soil "as his fathers have done before him," and it is not too much to say that a reader of the Georgics might be reading a poetical

sketch of modern Italian agriculture. But economic conditions seem to have terribly changed and the "fortunati nimium," are now spoken of as "the unfortunate farmer," the "wretched agriculturist," the "usury ridden contadino" by the reports and economists. Much of the prevailing misery is in fact due to usurious debt "contracted, too often, to supply the pressing necessities of the barely find enough to live upon, was not the man to dream of land improvements, still less of borrowing money to make such improvements. Moreover, capital seldom turns readily to rural credit and demands high interest for so doing; hence the small proprietor, even when anxious to borrow for an improvements, finds that the interest and other charges "amount to more than he can make from his land and live, "or the margin it leaves him is so small that the slightest variation in the season or the "market, suffices to destroy it, and he finds his rash engagement a burden that crushes "him instead of a succour that relieves." (U.S.A. Consular Report); "credit which has "for its base and guarantee property in land, rarely turns out to be profitable—the "interest which the borrower must pay is out of all proportion with his forces, or with the "possible gains of a cultivator; the commonest experience proves it; often the interest "on a loan representing only half the value of the land absorbs the profit of the whole." (Inchiesta Agraria). Yet again, even if the small proprietor were anxious to borrow, the banks are practically not open to him; on the one hand the expenses of an enquiry compared with the size of the loan are prohibitive, on the other, the profits to the bank on such small business are so small as compared with the expenses of branches or agents, and the risks of loss so great that neither borrowing peasant nor lending bank can come together: even the great Savings bank of Milan, which even in its Land Credit Branch, is as cheap and "popular" (in the sense of dealing with the masses) as is possible, finds that an estate of 75 acres (30 hectares) is the lowest area on which it can lend in Venetia (U.S.A. Consular Report); "here as elsewhere the small loan is either denied or devoured "by the expenses" (*idem*).

History.—In Italy the history of land banks is peculiar. After an abortive attempt in 1861 by a joint stock company to form such a bank at Milan, the Government nominated a commission to study the whole question, but not accepting its proposals, entered into a convention direct through its Ministry of agriculture with a French Company, which was to have a monopoly for twenty-five years, Government also granting a subvention proportional to the amount of loans up to £8,000,000. This again came to nothing. In 1865 Government agreed with eight existing banks that they should deal specially with land mortgages, each having a monopoly of privileges over a certain area, the operations of this nature being managed by a separate department of each bank. The law of 14th June 1866 settled the conditions upon which the banks should operate.

The banks in question are either charitable foundations formed by the consolidation or development of ancient Monti de Pietá (*e.g.*, Naples, compounded from seven old banks or monti, and with neither shareholders nor dividends), or are Savings banks, viz., those of Milan and Bologna, established as such in 1823 and 1836 respectively (for an account of these latter, *see* ' Savings banks '). By the law of 1866 each of these banks operated only within certain limits.

The law was found ineffectual; up to the end of 1882 they had only granted 7,857 loans for £14,227,320, each loan averaging £1,809, whilst in 1882, the interest-bearing mortgage debt of Italy was estimated at £286,000,000 (£360,000,000 in 1889); moreover, only about two-th rds of the amount was granted outside of the towns, and only 29 per cent. was for sums below £400, each such loan averaging £242.

The result was the law of 22nd February 1885, which permits these banks to operate throughout the country, and, in addition, permits, subject to special authorization and under particular conditions, the exercise of land credit by any banks or societies with a paid-up capital of £400,000, and by associations of proprietors whose aggregate property is £200,000 in value; not one of this latter class has been started up to date. The operations to be undertaken by the banks are similar to those of the Crédit Foncier, *plus* that of opening cash credits secured by mortgages.

Administration.—The land credit administration of each bank is wholly separated from that of the original institution; it is managed by the usual board of directors, and by a committee of supervision usually consisting of six members, one from the Founding institution, one from the Provincial council, one from the Communal council, one from the local Chamber of Commerce, and two auditors appointed by the directorate of the Founding institution.

Funds.—The old societies do not work with their own capital, but solely with that provided by the issue of land mortgage debentures (cartelle fondiarie). They must possess by law an endowment, but this is used solely as a guarantee fund. Joint stock societies can also issue their debentures up to the amount of ten times their paid-up capital, provided that they possess already mortgages to the value of half of such capital; against these mortgages debentures must not be issued, but they, or as they are paid off, others to a like value or cartelle to the same amount, must be kept in reserve in the bank's safe as a guarantee fund; each half-year the value of these mortgages or charged debentures (cartelle vincolati) must be verified and must equal half the amount of the paid-up capital.

The formation of a reserve is compulsory; the law requires that one-fourth of the annual profits shall be credited to this head until it has reached at least one-fifth of the paid-up capital in the case of banks where the issue of *cartelle* is limited (joint stock);

in the case of other banks the reserve must accumulate till, with the paid-up capital, it equals one-tenth of the amount of the debentures issued. The reserve must be invested in paper issued or guaranteed by the State or in the *cartelle fondiarie* of other banks.

The debentures (cartelle) are the real source of funds to these banks as in Germany and France. The system is that of the German Landschaften, viz., they bear only the rates of interest (5, 4½ and 4) fixed by law; they are issued direct to the borrower who has to place them upon the market, unless the bank undertakes this duty for him, so that he gets not a fixed sum in cash, but the market value of the debentures, the nominal value of which equals the amount of his loan; the interest paid by him to the bank is that which the debentures bear; the actual capital which finances each loan is obtained by the issue of debentures at the time each loan is granted. (The French system is different; a loan is granted in cash from money in hand at the interest which rules for loans at the time, and the bank subsequently issues debentures in order to replace the funds lent.) The Italian system thus preserves an exact equilibrium between the value and charges on the loans and debentures issued; a loan is granted for £200 in debentures of that face value; the borrower or the bank on his behalf sells the debentures for £180; the bank has to pay 5 per cent. interest on the face value of the debentures for £200 and the full principal of £200 at maturity, but equally receives interest on the amount and the full value of the principal of £200.

The face value of debentures must not be less than £4; it is usual to issue them for £20, divisible into five coupures of £4 each, so that they may be bought by quite poor people; one-sixth of the debentures are personal, and five-sixths to bearer, transferable without expense or formality.

The debentures of each rate of interest form a separate series, but all are equally guaranteed by the total mass of mortgages, *plus* any special guarantee fund; the holder of a debenture has no claim against any specific mortgage, but only against the bank. They are repaid by half-yearly drawings, in which the full value of the debentures withdrawn must equal the aggregate of the sinking fund amounts *due* from the mass of debtors, *plus* the amount of any repayments made in advance.

The market rate of these debentures has, in Italy, generally been below par for the lower rates of interest, but in this they are not peculiar, for all securities of those rates are equally low or lower; even Government paper of the same rates is generally lower. In 1875 when State paper was at 75, the land bank debentures were quoted, according to the bank, from 75 to 99, the lowest being that of the Cagliari bank, which failed in 1889, the highest that of the Savings bank of Milan; in 1880 State paper was quoted at 92 (maximum) and Land bank debentures from 91 to 103, Cagliari being against lowest; in 1889 State paper was 96, while the best land bank debentures were at a premium; in 1891 the 5 per cent. debentures were at 101½ and 102 for the bank of Sicily and the Savings bank of Bologna to 95 for the Bank of Naples and another, while the 4 and 4½ per cents. were quoted from 88 to 99 according to rate and bank. It is thus clear that land bank debentures enjoy a very high reputation and are greatly in demand, the 5 per cents. being generally at or above par, even when State paper is considerably below it; the reason evidently being that the finances of the banks are splendidly managed, and that the security is always in land and much above double the value of the loans which the debentures represent. For instance, in 1891, the loans represented a value of £30,000,000, while the property mortgaged as security was worth, even at the bank's valuations, £65,000,000. As in Germany and France, so in Italy, those who have money, even in small sums, can lay it out in the safest of all methods, viz., land mortgage, without the trouble of finding a borrower or testing the security, with the certainty that the mass of original security is good, and that to this there is superadded the guarantee of the bank, and with the comfortable assurance that the lender can, at any moment, recover his money in full and without expense by simply selling his debentures in the open market. (*See* further *s.v.* 'Privileges.')

Loans.—It has been seen above that the banks grant loans not with their own money, but with public money they themselves acting simply as intermediaries and guarantees; they enable the general public to lend on mortgage and add their own guarantee, charging a small percentage (0.45 per cent.) as commission for their services and as insurance.

The loans must be of long term, viz., from ten to fifty years, are repayable solely by amortization through half-yearly payments, and are secured only upon first mortgage to the amount of half the estimated value of the property pledged; loans payable in lump at maturity are not permitted to these banks, since the fundamental principle is the incessant recomposition of the loan amounts by a continuous accession of repayments, to which principle the immobilization of funds is diametrically opposed; the interests of the bank and of the borrowers are at one in this matter.

It is unnecessary to detail the methods of applying for and granting loans; suffice it to say that the valuation is very strictly conducted by Inspectors and examined by a special committee. All expenses must be deposited in advance by the candidate, and are very considerable; the minimum inquiry fee required by the National bank is £4 for rural loans. In proof of title all necessary documents must be presented, including an extract from the Land register (certificate censuario) for thirty years, giving the history of the parcel for that period. When it is decided to grant a loan, a conditional agreement is drawn up, and this is made final as soon as the document is definitively registered as a first mortgage; the two documents are treated as one for registration and stamp purposes. No loan can be for less than £40, and in practice the average is above £1,800; none ever

approach the minimum. Loans for the maximum period of fifty years form 61 per cent. of the whole; those up to twenty-five years only 13 per cent. The necessity for very long terms is proved by similar results found in Germany and France.

Loans may be granted up to three-fifths of the value of the property if the object of the loan is to clear off a balance of the price paid for a property, or a fine upon renewal of a permanent lease (onere enfiteutico). A first mortgage is one in which the bank takes the first rank, either directly or by buying out former encumbrances; it is easy to effect this without danger by means of the conditional agreement above noticed.

Loans are repaid by fixed annuity on half-yearly instalments. The annuity consists of the interest which may be 5, 4½ or 4 per cent. at the borrower's pleasure, since the debentures issued in representation of his loan, bear the same interest and bring him in only their market value, a charge of 0.45 per cent. for commission, of 0.15 per cent. as a composition for all registration and stamp duties, exclusive, however, of other taxes except those on the circulation of debentures (*see* 'Taxation'), and the sinking fund charge, which necessarily varies according to the term of the loan and the rate of interest selected. The true rate of interest is of course higher than the nominal if the debentures are below par. All loans can be repaid in advance, either partially or wholly; if partially, the borrower must pay 0.45 per cent. of the sum repaid in advance, as a compensation to the bank for a sudden repayment, involving a fresh loan elsewhere, a possible temporary unproductiveness of the money, and a withdrawal after some months, of the corresponding debentures; he must also pay the 0.15 per cent. due to the State in full for the whole term, since this is a composition for registration and stamp duties; if, however, the *whole* sum is repaid, the 0.15 per cent. is reducible to one-fourth of that percentage calculated on the number of years remaining, such sum to be paid up with the principal repaid. All repayments of the principal may be made in debentures of the same rate of interest as the loan and at their face value.

Certain loans are made in cash, and even without amortization, viz., those issued by joint stock banks in representation of half of their capital. These are the only exception.

Privileges.—These are numerous but small, and arise partly from the nature of the ordinary administration.

The *first* is that no opposition can be made in Court or otherwise to the claim of the bank for the payment of its dues or the repayment of the principal; once the loan is granted under the conditions above laid down, neither the borrower nor any third party can object to the payments due. This provision is taken from the French law on the subject.

Secondly, dues in arrear are subject, *de jure,* to interest from the date of arrear.

Thirdly, if even a single instalment is in arrears, the bank can at once demand payment of the whole of its dues. In practice it is customary to allow two instalments to fall due before taking advantage of this stringent provision.

Fourthly, for arrears of the annuity the bank can proceed against its debtor's movables by the same processes (a species of distraint) that the State uses against movables for collecting arrears of direct taxes.

Fifthly, in proceeding to sale of the land the Court grants an attachment by an order not subject to appeal; the necessary intervals are somewhat shortened, and the bank can require payment to itself of the full amount of the Court sale-proceeds within twenty days. The Italian law of procedure gives oppurtunity for considerable delay and expenses which the shortened procedure is intended to meet; it does not appear that the privilege amounts to much.

Sixthly, trust property may be invested in debentures of the banks.

Seventhly, neither the debentures, nor the interest thereon, nor cash credits can be the subject of attachment. The object of this is to give debentures a ready market, for it is obvious that, if the holder must be paid his interest without fear of attachment, they will be readily bought. This privilege probably accounts for the high market rates for these debentures when compared even with State paper.

Supervision.—All land banks, or banks operating in land credit, are largely under Government supervision. The eight original land banks are subject to supervision in the first place as Opere Pie and as Savings banks; in their Land Department, their articles have been approved by Government, which also requires them to provide a guarantee fund. Other banks can only operate in land credit on obtaining a royal decree to that effect; so also mutual societies of proprietors.

The banks are all placed under the supervision of the Minister of Agriculture, Commerce and Industry, who exercises powers as fixed by rules issued under section 28 of the law. All banks intending to grant real credit must apply to the minister who examines their status, articles, &c., and, in case of approval, moves the Government in their favour. His subsequent action is chiefly that of inspection and the receipt of returns. These returns are very detailed and somewhat onerous; the first is a copy of the minutes of the Directors' meetings to be sent within eight days of each meeting; if the minister considers any of them illegal, he can declare their nullity. The second is a copy of the financial position of the bank, sent every two months; the third is the annual balance sheet; the fourth is a statement at the end of the year of all loans in arrears or in dispute. The fifth is very important, and is intended to enable the minister to see whether the bank is strictly keeping to the absolute rule that debentures shall represent only the existing value of loans; this statement is half-yearly and must show for *each existing loan* in serial number (1) its original amount, (2) its date, (3) the date when it will expire, (4) the

amount of each instalment, (5) the amount paid in advance, if any, whether paid in cash or debentures, (6) the losses paid off in the half-year. The minister can verify by inspection the correctness of this return. Possibly this return is unnecessarily cumbersome; an abstract coupled with the right of verification by Inspectors would suffice.

The Minister employs Inspectors chiefly to examine (1) whether, in the case of joint stock banks, the mortgages or debentures representing half the paid-up capital are duly maintained and kept in custody; (2) to test the equilibrium between debentures and mortgages; (3) to verify the statements put in by the banks; (4) to assist in the drawings and destruction of debentures, on which occasions another public officer selected by the Prefect (Collector) is usually ordered to be present.

The Government also sanctions the opening of branches and agencies, especially when Savings banks or Opere Pie undertake such work.

It will be seen that the Minister has very large powers of supervision and inspection, but he does not interfere in the actual working of the bank; he exercises a " vigilanza " as distinguished from an " ingerenza governativa. "

Taxation.—This is heavy. There is no exemption from any of the regular taxes, but the composition of registration and stamp duties on mortgage transactions is useful.

The income-tax (sopra la richezza mobile) is serious; the bank itself pays this tax on the interest derived from its mortgage loans, so that its profits are decreased by the amount of the tax; it also retains the amount payable by debenture-holders on the interest due to them, and pays it to Government, which thus obtains a heavy tax on both in-comings and out-goings. In some cases the bank pays the full interest to the debenture-holders, and recoups itself from the borrowers who thus pay the income-tax as an additional charge. The amount paid is not clear, but the tax amounted in 1893 to 13.20 per cent. on the taxable amount.

Government also demands a considerable annual payment from each bank on account of supervision charges.

The above law with the Government Regulations will be found translated in an appendix to which readers are referred for details.

Only two joint stock societies took up land credit under the law of 1866 and only one of them actually operated; no mutual society was formed. The total on loan in 1889, after twenty-three years under the special law, was only £27,240,000, of which five-ninths was on purely rural property, while the total interest bearing registered mortgage debt of the country had increased to £360,000,000 (9 milliards), and while agriculture and rural property were languishing for funds in a crisis of finance and production; at the Congress of 1881 it had been expressly pointed out that land credit had not been " democratized "; that the loans averaged above £1,600; that only 10 per cent. had been granted in small loans, *i.e.*, those below £800, while it was precisely the small folk who were by far the most numerous and who had by far the greatest needs. This complaint had not been answered by the operations of the law of 1885; in fact the average loan between 1885 and 1889 was considerably above £2,000, and the average of all loans existing in 1889 was £2,016. Government therefore sought how a National land bank, such as the Crédit Foncier of France, with credit and ability to draw funds even from outside of Italy, might be established, and a Bill was accordingly drawn up and submitted to a special committee, the report of which is extremely interesting, but lengthy.

The new law was passed on 17th July 1890 and was completed by the usual administrative set of rules on 1st February 1891, both of which will be found in an appendix. By this law the State is authorized on the proposal of the Minister of Agriculture to grant to a single joint stock company the right of supplying real credit throughout the country, under the provisions of the Act of 1885 as modified by the new law. The society is to be privileged in its operations, but not to have a monopoly; the eight existing land banks are, however, to confine themselves to the circles to which they were limited prior to 1885, or they may merge themselves or their land credit departments in the new bank. The new society must have a capital of £4,000,000, and the privileges are to last for fifteen years. The Minister of Agriculture must examine the claims of any company to found such a bank, and its articles, rules of business for the grant of loans &c., must be confirmed by Government. The capital and reserve must be invested solely in mortgages not represented by debentures, in cash, in securities of State, or in land and agricultural debentures. Loans may be granted in cash or in debentures, the usual commission being paid by the borrower. Profits are to be distributed as follows: 5 per cent. to the reserve till it shall have reached at least one-fifth of the paid-up capital; a dividend to the shareholders not exceeding 6 per cent. on the amount paid up; of the remainder, 25 per cent. does to the State, another 25 per cent. to the reserve, if not already full; the remaining 50 per cent. is at the disposal of the general meeting.

The Government Order establishing the bank shall also fix the rules for Government supervision, those already existing under the law and rules of 1885 being also maintained. A commissioner shall be appointed by the Minister of Agriculture, whose duty shall be that of exercising the supervision provided by the law and rules of 1885 and by the present law; his expenses are paid by the bank to Government. In case the manager or the directors contravene the law, &c., the Minister of Agriculture shall impeach them before the fourth section of the council of State—a section of the council appointed " per la giustizia amministrativa, " viz., to decide in a judicial manner on administrative shortcomings, officers, disputes, &c. This section hears the parties, and can dismiss the directors or any

of them on sufficient cause shown, and appoint a royal commissioner as a temporary manager. The Minister can also take similar steps, should the holders of 5 per cent. of the debentures in circulation lay information of facts which might endanger the bank,

When a borrower delays payment of his instalments, the bank can claim possession of his estate through the Court, and, if placed in possession, applies the produce after paying the estate charges and taxes, in payment of its dues, notwithstanding the claims of third parties. This possession ends when the arrears are satisfied, or where a regular judicial receiver is appointed by a court in a suit.

Debentures may be issued at 5, 4½, 4 and 3½ per cent., and the bank may pay the income tax thereon, recouping itself from the mortgagor, so that the debenture-holders will get their interest free of all deduction. This does not apply to the 5 per cent. debentures. Debentures may be called in and converted at a lower rate of interest, any profit from the transaction going solely to the bank's borrowers by a reduction of the interest paid by them.

A bank has recently (1891) been formed in accordance with this law.

SWEDEN.—The Royal Mortgage bank of Sweden was founded by Government patronage under the law of 26th April 1861, in order to furnish the Provincial mortgage associations which existed since 1836, with the funds necessary for loans on immovable property. Each association pays at least 3½ per cent. for the sums it receives.

The State has granted the bank an endowment of £444,000 in Government 5 per cent. paper; it is financed by the exclusive privilege of issuing debentures representative of its mortgage loans; it has neither shareholders nor share capital, and makes no profits beyond the bare expenses of administration and for a reserve, which latter reaches its maximum at £60,000, all profits thereafter going to reduce the cost of loans. The State further grants a guarantee capital of £332,000 in paper inconvertible, but bearing at least 5 per cent. interest; these bonds cannot be alienated except in case of emergency.

The administration is of the usual class, and the Governor has always the power of inspecting the accounts.

The associations which the bank finances are formed of groups of proprietors whose lands in the aggregate represent at least £225,000 in value; each member must own lands worth at least £225 free of all charges; each association is subject to royal authority. An association can only lend to its members, and on first mortgage, or with cession or purchase of priority if there are prior charges. The interest on loans must not exceed 6 per cent. *plus* 0.25 for expenses; arrears are charged with penal interest at 12 per cent. Repayments in advance are only admitted if the amount can be usefully re-allotted.

The bank issued its debentures in 1879 in France through the Bank of Paris, somewhat below par. At Hamburg its 4½ per cent. bonds were quoted above par. Up to 1885 its mortgage loans, in so small and comparatively poor a country as Sweden, had reached £16,602,528, and its debentures reached nearly the same sum.

It will be observed that this bank does not lend direct to proprietors, but to associations of proprietors, who themselves distribute the individual loans. Unfortunately no further information is at present available regarding the bank and the work of its affiliated societies; but it is probable that the bank and its associations are similar in method to the Central Landschaft and the affiliated Landschaften in Prussia; the local banks or associations make the loans and take the mortgages, but forward the documents to the Central bank, which then issues its own debentures against the mortgagor. Possibly, however, the bank lends money direct to the associations on the security of the properties held by the members.

RUSSIA.—In Russia there appear to be many Government banks, and more than 100 were in existence before 1852, the oldest dating back to the middle of last century. No statistics however are available for this study. They are divided into four classes: (1) that managed by the Finance Minister for the profit of the State, viz., the State loan bank; (2) Provincial banks directed by the Minister of the Interior (Home Department); (3) establishments founded by the communes; (4) establishments by societies, including the two great Savings banks of St. Petersburg and Moscow. To these must be added the "Nobles' land bank," and the "Peasants' land bank" started in 1882 to enable the *ex*-serfs freed in 1864, to become outright owners of their land by lending them the capitalized value of the redemption charges due to the landlord and late owner of the serfs and land. As regards the old establishments, it is stated that borrowers prefer private lenders who, though charging higher interest, readily grant delays and other facilities in the matter of repayment.

It may be well to describe the newer institutions, viz., (1) the "Nobles' land bank," (2) the "Peasants' land bank."

The former was founded to help the nobles who had been impoverished by the indirect results of the emancipation of the serfs in 1861; in a recent official publication it is stated that about 40 per cent. of all private "noble" lands are under mortgage. The bank was to take mortgages, financing the loans by the issue of the usual debentures, against which the State bank was instructed to make large advances. It is stated however that these loans have not benefited the nobles, who have not sunk the money in improvements, but unproductively, so that arrears have accrued, and very many estates have been sold, while land has become frequently unsaleable. Moreover the State bank itself, with a quantity of depreciated paper from the unsound investments, has been compromised, the land bank owing it about £7,000,000, and but for a recent successful issue by the land

bank of an internal loan of £9,000,000 on the "lottery" principle, might have been endangered. More than 177,000,000 roubles had been lent by the bank up to 1892.

This supports the view that land banks must watch over the object and expenditure of loans, and not be content with merely looking to the security. For, merely from the point of view of the bank's safety, it is clear that property in great masses may, by neglect and exhaustion, become largely unsaleable, so that a security originally sufficient may be depreciated beyond the margin of safety to the bank.

The Peasants' State land bank is, however, that which most appeals to Indian study. Its object is to facilitate the outright purchase of land from the owners by peasants or rather by communes, in order that the peasants may acquire as a freehold that land, which, under the conditions of the Emancipation Act, and the then opinions of the peasantry, they at first refused to secure; for one reason or another, the peasants failed to redeem from the landlord's redemption charges the land offered to them, and were rapidly becoming mere tenants at a rack rent. To remedy this the Government established a State land bank, from which money should be advanced for the purchase of land. Only peasants are aided, merchants, shopkeepers, small town dwellers and Jews being excluded. The advances are made (*a*) to the commune (mir), (*b*) to an association of not less than three peasants who are jointly responsible, (*c*) to individual peasants; money is, however, usually lent to communes, as will be seen from the statistics and size of the loans; there is, in fact, a feeling against lending to associations for fear that the richer peasants would combine and borrow and thus buy up the best land to the exclusion of the more needy. The method of lending to communes seems successful, the communal assembly, in the cases investigated dividing the lands fairly enough.

The following is a statement of the organization of the bank from Commercial No. 11 of 1885 (Parliamentary Paper):—

"The Peasant bank was established by the Government in the Finance Department, "under the direction of a Government employé in May 1882. It commenced operations "in April 1883 with 11 branch establishments, which, in February 1885, had "increased to twenty-three. The treasury is authorized to advance yearly the "sum of 5,000,000 roubles (about 500,000*l.*). The operations of the bank extend over all "European Russia, exclusive of Poland and the Baltic provinces. The chief business is "transacted by the affiliated rural banks, of which 23 have now been opened in the chief "agricultural districts, namely, in the black earth zone and the steppes. These rural banks "advance the money to the peasants and also afford them information and advice. The "peasants obtain loans of ready money for 24½ or 34½ years at a rate of 7½ to 8½ per cent., "including amortization,* and they give as security, until complete repayment, the land "just purchased.

"The Central bank sells mortgage bonds especially issued by the Finance Minister, "and which bear 5½ per cent. interest. These bonds, which were issued at par, now stand "at 102½. Should the amount of these mortgage bonds exceed the sum of 5,000,000 "roubles in one year, a special application must be made to the Emperor for his sanction.

"The question of the success of this Peasant bank is already much discussed. Many "persons are of opinion that whilst the land-owners and the peasants will derive much "benefit, that the State treasury will suffer through inability of peasants in bad years "to pay the interest of the loans. In the event of the payments being more than one "year in arrear, the bank can seize and sell the allotment. But difficulties as to its sale "may arise, and the probabilities are that evictions will be impossible, owing to the deep-"rooted conviction of the peasant that misfortune cannot cancel his right to the soil; or "the allotment may be bought by the richer peasants to the exclusion of the poorer ones "of the same commune, and the latter becoming paupers without interest in the communal "land may form a dangerous class.

"Another point which may affect the success of the scheme is the presence in almost "every village of the 'kabak,' or gin-shop— that only resource and curse of the Russian "peasant, which accounts for arrears of taxes far more than bad crops or cattle disease. "It may be hoped that the Government, being so greatly interested in the success of the "bank, may find means to suppress the 'kabak,' or at all events to restrict the sale of "spirits to the peasants without too seriously affecting the Excise returns.

"On the other hand, the great majority of opinions pronounces in favour of the "success of the Peasant bank and so far statistics and impartial evidence testify to the "undoubted success of the experiment."

Later statistics are as follows:—

"Statistics appearing in the *Viestnik Financoff* of the 30th August last, the official "organ of the Russian Minister of Finance, show that the total number of loans issued "by the Peasants' land bank since it commenced operations in 1883 has been 7,367, "representing advances to the value of 56,140,439 roubles; if to this be added 12,581,782 r. "contributed by the land purchasers themselves we have a sum amounting to 68,722, 221 r. "and representing the total purchase money with which 225,486 householders, the male "members of whose families, including themselves, amounted to 728,231, obtained 1,579,391 "dessiatines of land (the dessiatine 2.7 acres).

"The average price paid per dessiatine was 43 r. 51 cop.; of which 35 r. 55 cop. was "advanced by the bank.

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* 24½ years = 5½ interest + 2 amortization + 1 expenses = 8½.
34½ " = 5½ " + 1 " + 1 " = 7½.

" The highest prices paid were in the Governments of Kielce and Lomza in Poland " being respectively 356 and 125 r. per dessiatine and the lowest in the Governments of " Novgorod and Kostroma, being in each case only about 10 r. per dessiatine. The govern- " ments which availed themselves most largely of the Peasants' land bank loans since its " establishment in 1883 are those of Ekaterinoslav and Poltava, although since 1884 the " amounts advanced have decreased nearly every year; for instance, the loans issued in " the Government of Ekaterinoslav in 1885 amounted to 2,830 r., and in 1890 to only 56 r., " while in Poltava they have fallen from 2,738 r. advanced in 1884 to 104 in 1889, and 243 " in 1890.

" Concurrently with a decrease in the number of applications for loans towards the " purchase of land, there appears an increase in the accumulation of arrears, which has its " origin in a variety of circumstances, one of the chief and most wide-spread causes being " a succession of bad harvests and the fall in the price of agricultural produce. The " northern, north-western, and south-western governments are not so readily affected by " bad harvests owing to the greater variety of crops which they grow, as well as to the fact " that the inhabitants occupy themselves with domestic industries, or have other sources " of income besides that of agriculture, enabling them to make the payments entailed by " the loan. The number of allotments offered for sale by public auction for failure to pay " accumulated arrears in each of the four years—1887, 1888, 1889 and 1890—were 56, " 41 75, and 61 respectively, but owing to the difficulty of finding purchasers of land " which belonged to peasants, none of them were purchased in 1887, and only 3, 2, and 4 " were purchased in each of the years 1888, 1888, and 1890 respectively. " (' Board of Trade Journal, ' September 1891.)

" Up to 1st January 1893 this bank had made 9,896 loans to village communities, " associations, and individuals representing an aggregate of 268,499 householders. They " bought 4,704,107 acres valued at 82,729,146 roubles, of which 65,171,629 roubles were " lent by the bank, and 17,557,517 roubles paid by the buyers. " (Statesman's Year Book 1894.) The silver rouble is worth a little over 3 shillings, but the paper rouble which is chiefly current, is now worth less than two-thirds of the silver rouble.

It is clear that this is not a general credit bank, but a bank similar to the rent charge banks of Germany, Austria and Hungary, founded to enable the peasants to redeem their land from feudal and other charges. These have been very successful and, from the peasant's point of view, the Russian bank may be equally so, but opinions have been expressed that this bank has advanced on poor security owing to an over valuation of the lands under mortgage, and it will be noticed that arrears are accumulating concurrently with bad harvests and a heavy fall in prices.

Later information (Foreign Office Report of 16th August 1894) confirms the view that this bank is hardly in a sound condition or altogether satisfactory in its results to the borrowers. It is stated that the bank is yearly narrowing its operations owing to the growing inability of the peasantry to fulfil the pecuniary obligations contracted by them towards the bank; *e.g.*, in 1885 it assisted the peasants to buy 795,005 acres, in 1892 only 375,045, the intermediate figures showing steady decline. In 10 years the bank had advanced £6,500,000 to buy 4,725,572 acres for 866,698 adult males, but in 1893, that is in only 10 years, the value of the lands which had already reverted to the bank by reason of non-payment of the advances made, aggregated £642,030 or just 10 per cent. of the whole amount lent.

Government gives a general guarantee for the operations of the bank, a fact which confirms the view that reckless lending is likely to follow general guarantees or subventions by a State, and suggests that State subventions and State guarantees unless very moderate and carefully safeguarded are dangerous alike to the State, to the bank, and, probably, to the borrower.

In 1873, a joint stock society was founded in Russia, with Government approval, in order to centralize and unify the bonds of various types issued by the various Land societies of Russia. It was found that the paper of a comparatively small local society enjoyed little general credit; the public were naturally suspicious of obscure paper of varying face and market value and of no particular status. This was the case also in Italy, and is partly the cause of the new law of 1890, authorizing a National land bank for the whole territory. In Russia however, instead of superseding existing banks as in Italy, the Central bank takes the local banks' paper, and issues to the public against these purchases a corresponding quantity of its own debentures; its business position gives it complete knowledge of the value of the local banks, paper, while its own enables it to bear any accidental losses. The bank also undertakes to buy the paper of the local banks for individual purchasers.

It can only issue its debentures with the authority of the Minister of Finance, and for such issue it must have obtained on deposit an equivalent mass of the local banks' paper; nor may its total issues exceed ten times its paid-up capital and reserve. Its bonds are accepted by the Government as security from its various servants. It has the usual council and directors, all appointed by the general assembly; each councillor must possess at least 75 shares, which must be deposited in the bank's safe, and each director must hold 50 shares similarly deposited. An annual report must be sent to the Ministry of Finance.

One-third of the shares of this bank were held by Government: in 1887 the State had to come to its aid, and not only fully paid up its own shares, but made good £340,080 of losses. But in 1894 it was obliged to go into liquidation; it had paid no dividends on its

shares since 1876. It is said that the Russian "Government will take control of all its "assets with the expectation of realizing perhaps only 25 per cent. for the shareholders" (Professor Frederiksen in the "Annals of the American Academy of Political and Social "Science," September 1894). This is not a cheering result of quasi-State management.

SWITZERLAND.—Before describing the Banks of Switzerland, it is well to point out that in many respects it is the most advanced of all countries, not merely in the intelligence, education, and industry of its inhabitants, but in the development of communal life and organization and in the prevalence of the co-operative instinct which leads them to unite for all sorts of purposes, productive, financial, commercial and political. Its rural economics are largely and anciently based on co-operation, as in the management of common pastures (allmends), dairies, drainage works, &c., while in its later form, it is immensely developed, so that—to take one mode only—there are, for less than three millions of people, above 100 agricultural societies and credit associations, purchasing seed, manure, &c., for their members and otherwise helping to develop agriculture. It is not surprising then that credit, whether agricultural or urban, is also largely co-operative in the general sense of the word, and it is stated that in this little country there are nearly 900 credit institutions of all kinds; these are chiefly small joint stock banks, often with a trifling capital and with a sphere of operation limited, in practice, to a single village; they are mere groups of small capitalists seeking a good investment for their funds. Hence they are not always models for imitation; their promoters may allege philanthropic motives, and the object of combating the "cruel usurer," but the result is often that that usurer is simply replaced by a petty society of petty capitalists, all bent on getting dividends as high as possible on their little contributions; just as the peasant is the hardest of landlords, so the petty capitalist is the hardest of lenders. Hence, while it is true that the individual capitalist is no longer of importance, as a lending agent, he has only given place in many ways, to equally exacting "banks." Moreover these joint stock banks, being simply associations of lenders seeking to place their capital profitably, have no interest in controlling either the power or habit of borrowing or the use made of the capital; on the contrary, they are anxious for as much borrowing as possible so long as the security is sufficient. But this is precisely the danger of cheap credit indiscriminately granted; credit, like fire, destroys as well has comforts, and must be equally kept under control, if the borrower is not to find himself the worse for his power of borrowing. It is even a question whether this power has not been already abused in Switzerland, owing to a too facile credit; the exact amount of existing mortgages is not known, but in 1889 the Canton of Berne with less than one-fifth of the total population and without any special industries—except watches and cheese—or large towns except Berne, had a mortgage debt of £15,952,452 or about £30 per head of population under mortgages alone. It is considered that the Swiss have too easily run into debt which has greatly increased of late years; all the American Consuls have reported to this effect, the Consul General of Berne expressly stating that the "giving and taking of credit is carried on to such an extent that general prosperity is "already injured thereby, and will probably be injured still more in future;" also that large parts of the real estate are so heavily mortgaged that the parties can hardly pay the interest on the debt and support themselves.

There appear to be at least twelve mortgage banks, in which land mortgage is the principal object of business, besides the ordinary Cantonal banks established by the Cantons for general banking purposes, the numerous private banks, and the equally numerous Savings banks. Two or more of these mortgage banks are State (Cantonal) banks; others are private, but more or less favoured by the State financially or otherwise. None however enjoys any privileges either of the fisc or of procedure, legal or executive; all are subject to the general law. The sole exception is the Cantonal bank of Fribourg, the debentures of which require no stamp and are not subject to income tax.

The Cantonal Hypothekarkasse (Mortgage bank) of Berne—not to be confounded with the Bernese Boden Credit Institution mentioned hereafter—is a very successful State institution, which will be described in detail both because of its success in granting small loans to landholders, and because of the peculiar if not unique organization which renders such loans facile, or perhaps possible.

It was founded in 1846, but remodelled by a special law of 1875, of which the chief provisions follow (*see* also appendix). The bank is a Cantonal bank, financed to begin with by the State, which finds a foundation capital which may not fall below £280,000, to which are added various sources of income. The objects of the bank are mortgage loans, advances on certain securities (from surplus funds only), and the receipt of deposits, but the State council may direct it to undertake other operations. It administers the State debt and the State domains, receives all State funds specially transferred to it, the securities of public officers, and supervises the financial administration.

The mortgage loans may be granted up to two-thirds, and exceptionally up to three-fourths of the value as estimated by the Settlement Department; properties must be free of prior encumbrances, and preference is to be given "to small landholders, to small loans "and to persons who borrow in order to use the loans to extinguish prior debt." No loan can be granted for more than £2,000; no minimum is stated. A borrower must provide himself with an exact account of himself and of his property; regarding the latter he must describe it in detail mentioning the nature of the cultivation, any encumbrances and charges of any sort, the insured value of the buildings, the mode by which he acquired it and the price he paid; the settlement valuation

of each field, the privileges held over it by females of the family, &c. This description is presented not to the bank, *but to the Communal council*, and is accompanied by the request for a loan. The Communal council must add a certificate that the candidate is adult and not incapacitated (or giving the name, &c., of his guardian); that the property is correctly described; if not correct, the council must enter a true description; it must also state whether it is liable to deteriorations or accidents; that the property is not encumbered except by family claims; that the candidate is, by common report, the proprietor; that the settlement valuation is correct and that the property has not deteriorated since the last settlement; if it has so deteriorated, the nature of such loss. The commune itself is held responsible for any loss caused to the bank by any fraud or negligence on the part of the Communal council in the above.

The above papers are then sent by the candidate to the Conservator of mortgages, who adds a certificate from the Land register (Grundbuch) showing the candidate's title and date of its confirmation and must carefully verify the papers with his registers; he adds also a statement, if any, of mortgages not cancelled, of any rights or claims of third parties, with all necessary details; he is responsible in the same way as the Communal council for any fraud or negligence. The papers are then sent by the Conservator to the bank. The Conservator is also the authority who draws up the necessary documents if a loan is granted, and the loan is also paid to the borrower through him; he must at once enter the mortgage in the Land registers, and note thereon that all previous mortgages have been wiped off (*i.e.*, apparently, when the borrower takes a loan to extinguish prior debts he does so before the Conservator with the proceeds of the loan); he then sends the debt bond with all necessary certificates to the bank. The Conservator is held responsible for all damages arising from delay or negligence in any of the above acts, or from any deviation from the conditions of the loan. Deeds for debt due to the bank are not subject to the ordinary decennial renewal of registration, but preserve their rank till cancelment.

Interest on loans must exceed by at least $\frac{1}{4}$ per cent. the highest paid on deposits; a commission paid in lump is also required for the expenses of enquiry.

All mortgages are repayable by annuity only, which must be at least 6 per cent. interest and sinking fund included; but the debtor may always pay off the whole or part of his debt. The bank however can only recall its loan in full (1) when a borrower is in arrears with any instalment for three clear months after being notified that the first step towards recovery has been taken; (2) when the property has been alienated without the bank's consent; (3) when the property as so deteriorated as to seriously lessen the security and the borrower has failed, though ordered, to provide additional security; (4) when the property falls under liquidation: three months' notice is required in each case.

The Communal council is responsible up to the amount of the settlement valuation of the property, or of its own, if less; but it cannot be called on to pay more than any balance still due on the debt, together with any unpaid instalments of interest, and the costs of all proceedings. Nor is the commune liable if the loss is due to a subsequent accidental deterioration or to a general fall in the value of immovable property, but it is responsible if it does not report to the bank any deterioration that may happen. By the word "commune" is to be understood the whole communal body, *i.e.*, all the inhabitants of a village, so that they are bound individually and collectively to watch over the bank's interests, and to report correctly. The commune has the right of proceeding against the members of the Communal council if they have shown fraud or negligence.

The State (Canton) guarantees all the engagements of the bank not covered by its own assets.

The bank is placed under the Financial Department and the Executive council. It is administered by a director of fifteen members appointed by Government, with a special sub-committee of supervision; the manager who is the Executive officer is appointed by the Executive (State) council on the nomination of the directors.

Such are the general provisions which are supplemented by sets of rules for the administration, for the management of deposits, and for other details.

It will have been observed that the real work and the real responsibility in this bank rests with the communes, and with the Communal councils in particular. The communes in Europe are corporate bodies, with corporate rights and property, and the State, as paramount chief of these corporations, compels them to undertake, for the benefit of individual residents in the commune a labour wholly unpaid, and a risk wholly uncompensated; moreover every resident in the commune is responsible, and duties are thrust upon him by the mere fact of his living in the commune. It is perfectly certain, however, that the communes will run no avoidable risk, and will be careful not only to verify the borrower's title and position and the valuation of his property, but will be keen to detect and report any deterioration or mismanagement. The risk, moreover, is really very small, for the debt, under the annuity plan, decreases every year and with it the chance of loss; hence the real use of the communes is as agents, entirely unpaid, local, and certain, by reason of the responsibility, to be very careful in their valuations and supervision; the bank has, in them, agents in and throughout every village, and yet is free from the cost of such agents, and from the necessity for costly supervision over them, for supervision is hardly needed when the Government can and does throw upon them all loss. The importance of this gratuitous and ingeniously-organized agency will be seen in the results as noted below; loans are extremely small and easily obtained. The regular Government officials are probably utilized also by the bank as in the case of the Vaudoise bank, but this is not entered in the law.

The report for 1889 shows that on the 1st January 1889 the bank had 23,559 mortgage loans outstanding for £3,235,548, averaging £137 in their existing value; during the year it granted 1,315 ordinary mortgages averaging £200. Its foundation capital contributed by the State was £520,000; it held deposits for £2,196,156, and savings deposits for £537,140. The State drew £30,316 as dividend on its contribution to capital, being an interest of 5.8 per cent., a very respectable return for the use of its money, it being remembered that all expenses of administration were paid for by the bank, so that this dividend was clear profit.

The operations of the bank had steadily developed from £51,000 in 1847, and it is noteworthy that this single bank was mortgagee to the landholders of the Canton in an amount equal to £6-5-0 per head of the total population, while in the Oberland districts the amount per head ran as high as £18, and even £33 in certain circles. It will be remembered that in this Canton the mortgage debt alone is equal to almost £30 per head of the population.

Though, or perhaps because, the bank's operations are cheap and facile, coercive process seriously frequent. The report states that proceedings (Betreibungen) were found necessary in 4,366 cases; probably these corresponded to the demand mentioned as a preliminary to the calling in of a loan for arrears; this, however, is a very large proportion for only 23,559 loans, of which many were nearly paid off. Moreover there were, during the year, no less than 462 Court liquidations and expropriations of the bank's debtors as against 440 in 1888. When compared with the annual average of new loans, perhaps 1,500, the annual liquidations and expropriations, though not all caused by the bank, are simply enormous. This is not peculiar to this bank; it will be noticed in the Vaudoise Mortgage bank, in the Bernese Boden Credit Institution and in those German banks which succeed in giving small and facile credit, *e.g.*, Bavaria. Cheap and facile land credit is not without its disadvantages and dangers.

The Bernese Boden Credit Anstalt is another mortgage bank, but is a joint stock company without connection with the State. It is one of the three Swiss land mortgage banks which issue debentures proper, and may do so up to ten times its paid-up capital On 31st December 1889 it had 1,232 mortgage loans in existence for £384,404, and it has been supposed that many of them were extremely small, viz., that 402 were from £6 to £50. This, however, seems to be hardly correct; the 1,232 loans are amortizable loans of from one to many years' standing, and the statement shows their value *as they existed* at the end of 1889, when, of course, a large number were on the point of extinction; hence, though it is known that Swiss mortgages are very small, it does not appear that this bank actually grants mortgages as low as £6. This bank has never held many loans; those outstanding in 1878 were 1,417, in 1881 1,554, in 1889 1,232.

It is very noteworthy that this bank, like the others, evidently resorts heavily to coercive process; in 1889 its oustanding loans were £384,404, a sum similar to that in 1878, 1881, &c.; but according to a statement in M. Durand's work, its balance sheet for that year shows among its assets a sum of no less than £84,692 as "properties acquired by expropriation"; in other words, besides other coercive process and suits, it had sold up debtors to such an extent, that, in 1889, it held their properties, irrespective of those annually re-sold by the bank, to a value larger than the share capital (£80,000), and equal to 22 per cent. of its total existing loans. All action is taken through the ordinary Courts under the ordinary law.

The Vaudoise Cantonal Mortgage bank *—not the Cantonal bank—is a joint stock bank, limited, in which the State (Canton) is not only a partner, but takes so controlling a part that it is practically a State bank. It has a share capital of £480,000, in 24,000 shares, of which the State holds 1,100. Only 19,500 shares have been issued; these have been fully paid up. As the bank usually pays 5 per cent. the shares are at 2 per cent. premium, and when, as in 1889, fresh issues are made, the premium is credited to the reserve.

The State (Canton) guarantees 4 per cent. interest on the whole capital with the right of recovering from the gains of subsequent years any payments it may have made under this guarantee. Profits are distributed as follows: (1) 4 per cent. interest on the shares; (2) any amount due to the State as mentioned in the previous sentence; (3) 60 per cent. of the surplus as a dividend on the shares; (4) from 5 to 10 per cent. as a bonus to the staff; (5) the remainder to the reserve.

Funds.—Besides the above share capital, the bank has at command the deposits of of Cantonal Savings bank which, by law, is entrusted to its management, and the reserve of the Cantonal Assurance society; it also issues debentures and receives deposits.

The first named is a very important source of funds; in 1889 the savings deposits at the end of the year were £1,060,625. By law the mortgage bank should place up to 25 per cent. of the deposits in first class liquid securities, the remainder being available for use in loans, in the discount of good paper, and in account current with the Cantonal bank.

The debentures appear to be mere bonds, having no privileged status of first claim over the mass of mortgages as is the case with the German Pfandbriefe; the law and statutes give them no such position, so that debenture-holders rank only with the other creditors. They are personal or to bearer; the former are transferable by mere endorsement, and the

* This is the land bank, an account of which is printed as appendix A to the Third Report of the Royal Commission to enquire into the Depression of Trade and Industry (1886), and is mentioned by the Honourable S. Srinivasa Raghava Ayyangar, Rao Bahadur, C.I.E., in his Memorandum upon the Progress of the Madras Presidency.

bank is not responsible for the regularity or genuineness of such endorsement Interest is half-yearly; if not demanded within five years, all claims are barred in favour of the bank.

Deposits need no special mention.

Operations.—The bank is confined to lending on mortgage within the Canton—and, for not more than one year,—on the deposit of good mortgage deeds or land debentures, and to the buying and selling of certain securities.

Its chief duty is that of granting mortgage loans upon land or buildings, up to three-fourths of the value as estimated either by experts or by the settlement valuation. Preference is to be given to loans upon land repayable by annuity; none can be granted for less than £12, nor for any amount with a fraction of less than £4 (100 francs); this latter condition is to facilitate calculations. A demand for a loan must be accompanied by a certificate of title, and a declaration of value, together with all statements calculated to assist the bank in valuing the property and testing the security; the rules, however, are silent on the methods of valuation adopted by the bank, and merely state that all necessary enquiries, inspections, valuations, and verifications must be made; nor is it stated by whom local enquiries are to be carried out; obviously, therefore, it is difficult to estimate the costs likely to be incurred by the borrower.

Loans repayable by annuity may be for any term between nine and fifty-seven years, which are the periods in which loans at 4 per cent. interest, and 10·or ½ per cent. sinking fund, respectively, would be paid off. The bank also takes a commission of ½ per cent. at the grant of the loan. Mortgage loans not repayable by annuity are granted for not less than five years, repayable at maturity or subsequently on one year's notice. Six per cent. interest per annum is charged on arrears, calculated by periods of one full month.

It will be seen from the facts entered below for 1889 that while the bank succeeds in granting small loans to landholders, it is also obliged to have recourse to coercion in a very serious degree.

Administration.—The general assembly meets once in two years, and consists of all shareholders, proxies being allowed if given to shareholders for presentation. Shareholders have votes according to their shares, 10 shares giving two votes, 50 giving four, and every succeeding 100 giving one. The assembly appoints 10 members to the Council General; also two Auditors and two Secretaries.

The Council General is the real power in the bank; it consists of a President appointed by the Council of State, 10 members similarly appointed, and the 10 members elected by the general assembly; all must be shareholders and deposit at least one share in the safe of the bank; they may hold no other office in the bank. The Secretary to the Council is also appointed by the Council of State from among the State officials. The Council General annually appoints an Auditing Committee, and may appoint other special committees; it fixes the rates of interest, the investments to be made, and the issue of debentures; it decides disputes and complaints, provides for alterations of the statistics and rules, subject to State confirmation, receives and examines reports and balance sheets, apportions the profits, determines salaries, and decides the location of agencies and appoints the agents; on all the most important of these points the written opinion of the committee of supervision is first taken. The council meets regularly once in six months or oftener if necessary; the committee of supervision assists with its advice at all meetings. It will be observed that the council is practically a State council since the State has a preponderance of votes; this makes the bank practically a State bank, a necessity due to the State's interest as a shareholder, as final trustee of the Savings bank, and as guaranteeing a fixed interest.

The committee of supervision consists of the President of the Council General, and of four members appointed by the Council of State upon a list of 12 nominees presented by the Council General; its Secretary is that of the Council General. As hereafter mentioned, this committee, universally found in European companies and societies, has the highest supervising functions; it is not the executive council or board of directors, but is a controlling board, examining the various operations of the executive, especially the loans, verifying the cash balances and securities, &c.; and the directorate is bound to supply any information required. Its consent is needed for all borrowings by the bank, for the purchase of real property, for instituting suits, and for deciding matters on which a minority of the directors require a reference. The committee meets at least twice a month.

The directorate consists of a Chairman and two directors, all appointed by the Council of State from a list of nine nominees presented by the Council General, but they must not be related to one another within the fourth degree. It decides definitely all matters regarding loans, on the management of property under attachment, and all matters for which the consent of the committee of supervision is not needed; it appoints and discharges all employés, settles their pay; and generally passes orders on the details of administration. It must meet at least twice a week; twice a year, in person or by delegate, it must examine all the sub-offices and verify all securities.

The manager is in charge of the office and accounts, for which he is responsible, and represents the bank in the Courts; he signs the savings deposit books, the debentures and shares; he must deposit 40 non-alienable shares of the bank or equivalent security, in the Government Finance office. The cashier has the usual duties, and gives the same security as the manager. The controller is a head accountant and is immediately responsible for the condition of the books.

Salaried agents are appointed wherever necessary. The local tax collectors are also utilized as general agents, but only for the receipt of subscriptions to debentures and for paying out interest on shares and debentures, and for the receipt and repayment of Savings bank deposits.

There is a special set of rules for the Savings bank (*see* ' Savings banks ').

Statistics.—For 1889 the bank reported operations, &c., as follows; the 4 per cent. debentures were converted into 3½ per cent at 99; its total issue up to date was for £886,820. The share capital (issued) was £390,000, of which the State held £22,000; it held Savings bank deposits for £1,060,625 and reserves of £50,240. The dividend for the year was 5 per cent. The total mortgage loans were £2,224,000, viz., £1,809,600 in 9,588 loans repayable by annuity and £414,400 in 1,075 loans repayable in lump; the former averaged £189 and the latter £385; the former, it is to be remembered, is the average existing value of loans under amortization many of which were on the point of extinction, so that the average value as granted was much higher; in fact the value of the 1,009 annuity loans granted newly in 1889 averaged £235. This (£235) being the average, it is clear that many were very small, some probably even below £50. It is, then, clear that the bank reaches quite small folk. But it is equally true that the bank resorts to coercive measures to a serious degree. The total loans in existence were worth £2,224,000; but at the end of 1888 it held properties in liquidation for £70,230, and in 1889 it became owner, by expropriation of its debtors, of further property worth £11,452; during 1889 it sold or gave back 60 properties on which it realized £49,620 and suffered a loss of £3,384. It is clear then that, as these figures represent only the final action of the bank, there must be a great deal of coercive process ending in final eviction, with serious loss to the bank and much more serious loss to the borrowers.

The Land Bank of Geneva was founded by means of contributions from all the 48 communes of the Canton, and is administered by a directorate formed from the Cantonal and Communal councils. The capital serves only as guarantee, the loans being financed by the usual " cedules " or debentures; these are said to be the only cases in Switzerland of debentures privileged, as in France and Germany, in favour of the holders, who have the first claim against the assets of the bank even before depositors; in all other Swiss banks, the debenture-holders only come in with the other creditors. This bank carries on other banking operations.

The Mortgage Bank of St. Gall is a private joint stock bank, but founded on the initiative and with the guarantee of the Cantonal (State) bank of St. Gall.

The Mortgage Bank of Fribourg is also a joint stock society in which the State holds one-fifth of the original capital, and guarantees a 4 per cent. interest to the other shareholders, with, however, the right of recouping itself in years of profit for any losses sustained by its guarantee. The bank is directed by a committee composed of the Financial Director of Government, of two members named by the Council of State, and of 12 chosen by the shareholders. It provides funds by the issue of debentures up to the amount of its mortgages; the debenture-holders have no special privilege, but this is of little importance, as the bank does not receive deposits or savings. As stated above, it is the only mortgage bank in Switzerland which enjoys any fiscal privileges and that but slight. One operation is peculiar to this bank; it amortizes debts due to third parties; the debtor pays the bank a fixed annuity; out of this the bank pays the creditor his interest and capitalizes the balance on behalf of the debtor against the maturity of the debt. The idea is suggestive for India, as the method would give the debtor a deposit for his savings which he would not be able to draw upon, while all payments to the creditor being made through the bank, would necessarily be duly receipted and credited by him, so that one great source of oppression, viz., fraudulent omissions or short entries of payment, would be got rid of.

All other mortgage banks proper are private joint stock companies and are permitted to issue their debentures without limit, save such as they themselves provide in their statutes. Two banks are allowed to issue bank notes to a certain amount. Many of the Savings banks, hardly come within the category of mere Savings banks as understood in England; they are rather deposit and credit banks, generally worked by a jont stock society; they accept savings, but these frequently bear but a small proportion to deposits; *e.g.*, the Sparkasse of Lucerne had a share capital of £5,600, £360 of savings, and £30,400 of ordinary deposits (*See* ' Savings banks. ')

The majority of Swiss banks are simply petty joint stock banks (minuscules sociètés anonymes par actions); a large number work with a share capital of £400 and less; the well-known Savings bank (Sparkasse of Moutiers has a capital of only £800, in 100 shares of £8 each; with that and its large reserves, it has attracted deposits of £84,000 or more than one hundred times its capital.

The debentures of Swiss banks differ considerably from those of the rest of Europe; there is no direct correspondence between them and their amount and the mortgage loans; they are issued without reference to the loans, and are merely methods of obtaining money whenever it may be wanted. The reason is that the banks are financed in various ways, viz., by share capital, ordinary deposits, long-term deposits, savings, &c. It is usual, however, to limit debentures to ten or fifteen times the amount of the paid-up capital. Moreover they are usually mere bonds of fixed term payable at maturity, say fifteen or twenty years, and are not generally repayable by lot as the loans are amortized; the bank has of course the right to repay them at any time on a few months' notice. The certificates given in

exchange for term deposits appear to be made out to bearer and to circulte like ordinary paper.

Loans are always paid in cash, not in debentures. It is usual for banks to undertake all classes of banking work, and banks, as a rule, only differ from one another in giving greater or less prominence to the several classes; *e.g.*, in 1881, ten mortgage banks proper had 83.6 per cent. of their assets in mortgages at the end of the year, and only 3.6 in bills; the Cantonal banks had 40 per cent. in mortgages, and 59 per cent. in other investments; of the former class some did a considereble amount in bills, and of the latter some had 70 per cent. in mortgages; Savings banks, so called (*q.v.*), had about 57 per cent. of their assets in mortgages and Savings banks proper nearly 70 per cent., and the remainder in various investments. In gauging "other investments" it is to be remembered that bills, &c., are usually of short term, while mortgages are very long; *e.g.*, two Cantonal banks with 70 per cent. of their assets in mortgages at the end of 1881 only granted during the year mortgage loans for £111,280, while the general movement of their assets showed a turn-over in discounts, accounts current, &c., of £7,181,280.

The average existing value of loans in the regular mortgage banks was, in 1881, £194, but in two of these, including Berne, the average was as low as £95 and £113. This being so, it is clear, that an immense number must be quite small. It is however to be noted that this was the existing, not the granted value, and that as the great bulk of the loans were on the sinking fund principle, this value varies from near zero in old loans to a full average in that of the loans just granted; *e.g.*, in 1889 in the Vaudoise mortgage bank, the average existing value was £119, while that of new loans was £235. The point is important, for, though the Swiss banks give very small loans, it is not proved that they give such very small mortgage loans as £6, as supposed by one important writer.

It is however admitted that the Swiss banks have succeeded in giving small loans to small landholders; this is the peculiarity of Swiss mortgage banks and is due not merely to good and cheap laws of mortgage and registration, but to the proximity of the banks to the people, and in part to the ingenuity displayed in combining, as in the Berne and Geneva banks, local enquiry and responsibility with central management and finance. The importance of these small and cheap loans is incalculable in a country where, taking Canton Berne as an example, four-fifths of the holdings, embracing one-third of the cultivated land, are below 12½ acres, and three-fifths, embracing one-ninth of the cultivated land, are below 5 acres; Canton Aargau shows a much smaller average of holding.

In 1881 the bulk of the loans paid interest at 4¾ and 4½ per cent., while debentures were issued at 4¼ and 4 per cent., showing that about ½ per cent. margin suffices for expenses 84 per cent. of the loans—viz., £8,402,192 out of £9,943,160—in the 10 mortgage banks, paid 4¾ and 4½ per cent., while of the debentures on a circulation of £7,464,220, 71.5 per cent. paid 4¼ and 4 per cent. Similarly it will be seen under ' Savings banks ' that deposits obtain about 4 per cent., and since debentures and deposits provide the bulk of the assets, it is clear that from ½ to ¾ per cent. pays all expenses and gives the usual dividend of about 5 per cent. Since 1881 interest on both sides has again diminished by about ½ per cent., so that in the Vaudoise bank the debentures were paying only 3½ per cent. in 1889, while loans paid only 4¼ per cent.; at this rate the shareholders obtained a dividend of 5 per cent. and the borrowers very cheap loans. Of late years, many loans have been repaid solely in order to obtain fresh loans at cheaper rates. The reasons for this fall in interest are not special, but are chiefly those general to Europe, viz., a great cheapening of money.

Roumania.—This State has a well considered system of land credit, but it extends only to large proprietors. Up to 1870 there was no such institution; in that year the King, a Hohenzollern, introduced from Germany the principles of the Landschaften; there are now three societies. The special law which regulates these societies provides (1) that a society must have at least sixty members to begin with, owning properties worth, in the aggregate £120,000 or £2,000 each; it thus rules out all but large or medium proprietors; (2) that the State shall provide the first funds at interest; *e.g.*, the Bucharest society obtained a credit of £600,000; (3) that each society may issue debentures under rules similar to those of the French Crédit Foncier, and guaranteed by the mass of mortgages and by the State; (4) that the loans shall bear interest not exceeding 7 per cent., with ½ per cent. additional for a floating capital and for the expenses of administration, and ½ per cent. for the sinking fund; the borrower also pays 2 per cent. of his loan amount down to form a fixed capital; this is returned to him on the completion of his repayments; also 0.25 per cent not repayable, as a contribution to the reserve; (5) that the Government shall control each society by first and second commissioners appointed *ad hoc* by the king on the nomination of the Finance Minister; these commissioners audit the accounts, examine the balances, see that the law is observed, assist at the meetings, countersign the debentures, and are required to report every three months.

The administration is by a board elected by the general meeting for four years; there is also a committee of nine members appointed by the debenture-holders to watch over their interests.

The societies are doing good work, but are, by their limitation, obviously inadequate to small rural credit; they are good as a beginning and are able to place their debentures at interest a good deal below that charged to the borrowers, who will gradually profit by this fact.

Belgium.—In this country there is nothing special to note except a project which, in 1852, received the sanction of the House of Representatives, but was never sent up to the

Senate, or, consequently, passed into law; it was a product of the excited times of the middle of the century, and of ideas then current as to the duty of the State in land credit reform. This institution was to be founded on the basis of that of Galicia (Austria) except that the latter was an association of proprietors, while that of Belgium was to be purely a State bank, working under the Ministry of Finance, directed by a committee appointed by the King and controlled by six commissioners, appointed two by the king, two by the House of Representatives, and two by the Senate. Loans were to be granted on first mortgage up to one-fourth of the value of buildings and woods and one-half of the value of lands. The valuations were to be certified by the mortgage registrars; no property would be accepted of less value than £40, estimated as regards houses, and calculated, in the case of lands, by capitalizing the land tax at forty times its annual amount. The collection of the annuities was to be entrusted to the ordinary State collectors (Agents du Trésor) and the collections sent to the National bank. Government Auditors were to control all operations, and the accounts were to be regularly published in the Gazette. Arrears were to be collected by special procedure, and eviction carried out by summary method; the debts due to the bank were to have priority of rank. It must be specially remembered that this was not to be a Commercial bank, but a purely Government institution, working not for profit, but for facilitating real credit and for the transformation of ordinary mortgages into amortizable long-term debts due to the bank; there is, then, nothing surprising in the proposed privileges, including those of summary procedure.

The existing banks are all ordinary joint stock companies, and have no assistance of any sort from the State.

Portugal.—No information is available for this study beyond that contained in the report on the tenure of land in Europe (1870). By this it appears that Government grants to any land credit bank a special privilege, for twenty-five years, of issuing mortgage debentures, and also foregoes the usual tax of 10 per cent. on the interest of loans obtained from them. Up to 1870 only one company had been started; this had granted 10,630 loans in three years for a sum of £1,096,664—of these 447 averaged £65, and it seems clear that the smaller proprietors were getting some of the loans. The bank is a joint stock bank, lending at 6 per cent., the loans being repayable by annuities extending up to sixty years, and never less than 10. A commission of 1 per cent. is charged in addition to the interest. Nothing further is known of the bank except that in 1882 its outstanding loans were about £3,000,000; it is only mentioned to show that small loans *can* be given by such crédit foncier banks even in their infancy.

Spain.—In 1873 the Land Mortgage Bank of Spain was founded, "with the object "of opening property and agriculture from usury, by means of loans on a large scale "repayable by amortization." It is the only bank of its kind in Spain and holds a monopoly for the issue of debentures (cédulas). Its President is appointed by Government. No loan is granted below £200 (5,000 pesetas). "The precautions which it takes, and the guarantees "which it requires are such and so great that agriculture has met with no relief through "its means; its operations with rural property are rare and of little importance; while its "effect on usury has been to exacerbate rather than to alleviate it." *Local* institutions are preferred for agricultural credit. (From) a 'Note on Popular credit in Spain' in the 'Boletin de la Institución Libre de Enseñanza' for August 1890.

Denmark.—In this little country of small proprietors land indebtedness is very heavy and has been so for a century, viz., from 40 to 43 per cent. of the entire value of the properties up to 1884, and now 50 per cent.; but while the ratio is nearly the same, the amount has greatly increased with the great rise in values; it is due chiefly to the laws of inheritance and the sale customs; in the former case the land is burdened for the portions of the heirs who do not take up the land itself, in the latter part of the price is usually left on mortgage. The debt is said to be, in actual amount, six to ten times greater than it was forty years ago.

Now in this country where, besides the great farms, there are about 66,000 "peasant" (Bonde) farms of from 7 to 85 acres, and above 137,000 Hausmand holding less than that area, there are four crédit foncier banks, but these, with the Savings bank, appear to lend only to the large or substantial proprietors; these banks have been founded, under the special law of 1850, by the Agricultural Unions which exist throughout Denmark. The banks can only be started where proprietors, whose estates are valued in the aggregate at £120,000 at least, have united for the purpose; the conditions are similar to those of the Landschaften which they have evidently copied; their debentures are free of stamp duty and their procedure against defaulters is more simple than in the case of ordinary creditors. The small farmers have no such resource, and there are no State banks. In 1880, however, Government passed a law for the institution of two small banks for owners of properties worth not more than £224; they were to lend at 4 per cent. obtaining funds by debentures, which are free of stamp duty, and bear an interest of 4 per cent. guaranteed by the State, which, moreover, takes upon itself the cost of valuation, and grants a subvention for the initial expenses. The above privileges form part of the actual law, but as the full text is not available, it is not known whether the provisions of the Bill, for partial exemptions of the loans from stamp duty, were embodied in it. The conditions, on which these privileges were to be granted, were simply that the societies should be formed amongst holders of small properties, the aggregate of shares necessary for commencement being fixed at £28,000; this was never done; the petty proprietors lacked the initiative necessary, and the Government intentions, though formulated in a law, remain a dead letter to this day.

EGYPT.—The study of the ' Crédit Foncier Egyptien ' is interesting because it was an attempt to bring credit to landholders including the fellahin, who may be considered to correspond in some degree with the Indian peasantry. It was founded in 1880 and was based on the methods of its great French prototype, but the point of interest is only one, viz., that it failed precisely where its exemplar failed in bringing real credit to the small folk. It was soon found impossible to grant small loans, and by 1883 it had ceased to grant them below £300 in value. As a matter of fact its report of 1891 shows that up to date it had lent 2,268 loans, of which only 66 were below £100 and 438 below £200, nearly all these small ones being of the earlier years and probably urban; urban loans were gradually taking the place of rural loans; the average of all loans for 11 years was £1,800 and for the 127—mostly urban—granted during 1891 it was as much as £2,480.

An extract from the ' Correspondence respecting Agricultural Banks in India ' gives an account written in 1884 of the bank and its failure to reach the fellahin.

From Her Majesty's Agent and Consul-General in Egypt to the Secretary of State for Foreign Affairs, dated Cairo, 21st November 1894.

I have the honour to acknowledge the receipt of your Lordship's Despatch, No. 443, of the 31st ultimo. I enclose a memorandum prepared by Mr. Elliot, which gives all the main facts in connection with the working of the Crédit Foncier in Egypt. The most noteworthy feature of the peasant system is that, mainly by reason of the very heavy exepenses and the delay incurred in the recovery of advances through the law courts, the Credit Foncier has creased to advance to small cultivators.

Nubar Pacha has from time to time spoken to me on the question of establishing a Crédit Agricole in Egypt. The subject is one of very considerable difficulty, and I regret to say that my time has been so fully occupied by other matters of more immediate importance that I have not been able to study it with that thoroughness which would justify me in expressing a decided opinion on the expediency of establishing an institution of this nature in Egypt.

Memorandum on the working of the Crédit Foncier of Egypt.

1. The Crédit Foncier of Egypt was founded in 1880. It lends money on mortgages to owners of real property, and issues debentures to an amount not exceeding the total sum lent on mortgages. It is also empowered by its statutes to grant loans to various public bodies, with or without mortgage security, to acquire debts secured on mortgages, to open credits on accounts current, and to receive deposits. It is not, therefore, exclusively concerned with agricultural property.

2. The capital of the Crédit Foncier is 3,200,000*l.**in 160,000 shares of 20*l.* each of which 5*l* are paid up. The profits are divided in the following proportions:—

(1) The amount necessary to provide interest at 6 per cent. on the paid-up capital.
(2) Of the remainder 10 per cent. to the reserve fund.
(3) 5 per cent. to the board of directors.
(4) 15 per cent. to the " founders' shares. "
(5) The remaining 70 per cent. to the shareholders as extra dividend.

This has raised the interest on the shares in 1882 and 1883 to a fraction over 7 per cent.

The working expenses amounted to an average of 15,800*l.* for 1882 and 1883. This sum, which does not include 3,310*l.* and 7,380*l.* paid respectively in those years in taxes to the French Government on securities negotiable on the Paris Bourse, is equivalent to 25½*d.* per cent. on the net profit remaining for distribution as above.

Debentures bearing interest at 5 per cent. have been issued. The nominal amount in circulation in 1882 was about 1,660,000*l.*, but the sum actually received amounted only to 81¼ per cent. of that sum. In 1883 the debentures in circulation amounted to nominally 2,541,000*l.*, of which only 80 per cent. had been received. It has, therefore, been found necessary to provide by means of a sinking fund for the redemption of the large and unexpected difference between the nominal and the market value of the debentures.

The loans on securities and deposits on accounts current have not received any considerable extension.

3. The Crédit Foncier makes two kinds of advances on mortgage:

(1) Loans for a long term, repayable by annuities in not less than ten or more than 50 years;

(2) Loans for a short term, with or without sinking fund.

It lends only upon first mortgage, and only up to 60 per cent. of the value of the property as estimated by its own values.

The rate of interest charged is 6*s.* 8*d.*, besides 2 per cent. per annum for commission and expenses.

4. The following table shows the number and amounts of the loans advanced annually by the Crédit Foncier from its foundation to the year 1883:—

	No.	1880. Amount £E.†	No.	1881. Amount £E.†	No.	1882. Amount £E.†	No.	1883. Amount £E.†
Under £E. 300	93	14,537	278	48,079	212	37,214	21	3,680
£E 330—2,000	86	64,571	253	182,518	174	128,115	113	81,528
Over £E. 2,000	30	352,712	70	494,378	36	241,960	50	485,874
	209	431,820	601	724,975	422	407,289	184	571,082

* Originally 1,600,000*l.* in 80,000 shares; doubled in 1882.

† £1 = £E. 0.975.

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It will be seen that the loan of sums under £E. 300, which during the first three years were 47⅓ per cent. in number, and only 6⅓ per cent. in amount of the whole, in 1883 diminished almost to nothing. They have now ceased altogether. It is obvious, therefore, that the fellah proprietors have never been among the most important customers of this institution, and they have now no dealings with it whatever.

5. The reason for this is to be sought (1) in the attitude of the Crédit Foncier towards the fellahs; (2) in the attitude of the fellahs towards the Crédit Foncier.

(1) The Crédit Foncier is not a hard creditor. It usually waits until three quarterly payments of interest are in arrear before serving the debtor with any notice. It will also accept an instalment of the interest due, allowing the remainder to stand over without charging further interest upon it. But it has in some cases found it necessary to foreclose these mortgages, and the expenses attendant upon the necessary legal procedure have been found to be such that the 40 per cent. margin between the amount of the loan and the nominal value of the land has proved insufficient to cover them. The legal expenses in the recovery of small debts have been found to range between * 60 per cent. and 200 per cent. of the amount of the loan. It must be borne in mind that the Credit Foncier enjoys no special privileges or facilities for the recovery of the principal of its loans, nor for the collection of the interest. Under these circumstances it has been compelled to discontinue altogether the issue of loans of sums under £E. 300.

2. On the other hand the fellah has not had the advantages of borrowing at low interest from the Crédit Foncier presented to him in the most attractive form. Owing to the want of agencies in the country districts he probably, before concluding his loan, has to go to the expense of a journey to Cairo, where he has many formalities to go through, and where he finds temptations and opportunities to spend a portion of the money which was destined for the improvement of his fields. Moreover, he is exposed to all the influence of the local money lender, from which he can obtain his loan with less trouble, if upon more onerous conditions. The Crédit Foncier has made no attempt to conciliate the local money-lenders. It would not, for instance, advance money upon a mortgage secured upon the hand of a third party. It is, therefore, exposed to all the hostility of the vested interest.

6. To remedy this state of affairs a scheme has been propounded, and is now before the Council of Ministers, for affiliating to the Crédit Foncier a ' Crédit Agricole, ' which should enjoy special privileges, and a special legislation, enabling it to recover sums due to it speedily and economically. The Crédit Agricole would lend on the security of crops, cattle, agricultural implements, &c. It would establish numerous agencies throughout the country

A memorandum explanatory of the proposed scheme is appended.

7. The experience of the Crédit Foncier proves that certain privileges, especially in the direction of despatch and economy in the legal processes for recovering its debts, are necessary for the success of an institution of this nature. The concession of such privileges must, of course, be made conditional on the exercise of a considerable amount of Government supervision over the working of the institution. But it appears to be a matter for grave consideration whether special privileges could properly be extended to, or Government control satisfactorily exercised over, a purely commercial enterprise, and one which extends its business transactions far beyond the limits to which the Government interest in it is confined, and whose financial position is not unassailable.

The society for the promotion of a ' Crédit Agricole ' mentioned in paragraph 6 of the above extract has come to nothing according to information expressly obtained from Egypt in 1893.

It will be observed that the absence of proximity between the bank and its intended clientèle and the costs of recovering loans were believed to be the chief obstacles in the way of reaching the fellahin; to obviate the former defect agencies were proposed; the example of the French Crédit Foncier and above all of the Crédit Agricole shows that this is insufficient; agencies are too expensive and uncertain. To obviate the latter defect special legislation granting privileges in the way of recovering debts was recommended; apparently this was necessitated by the distance and expense of the courts, where the legal expenses were said to range, for the recovery of small debts, " between 60 per cent. and 200 per cent." of " the amount of the loan "! The 40 per cent. margin between the amount of the loan and the estimated value of the security was insufficient. Small wonder, then, that the bank could not reach the fellahin; it was defective in the cardinal conditions of proximity, security to the lender, and of facility to the borrower.

It is believed that this example itself proves the necessity (1) of absolutely local banks, (2) of the privileges entered in the " draft bill, " which forms another chapter of this appendix.

Resumé.—The above sketch of the European system of land banks is intended to give merely a general idea of the rise and nature of organized land credit in Europe. In brief, it has been shown that from a perception of the evils of indebtedness and of the hopeless position of " noble " landed proprietors who had none but the usurer to look to, Frederic the Great developed the system of associations amongst the proprietors of a province (Landschaft); these formed associations of borrowers—either *in esse* or *in posse*—who acted as intermediaries, obtained money on moderate terms for their constituents by issuing their own debentures against the properties pledged, adding not only their warrant for the

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* These figures are the result of the experience of the administrators of the domains. There is no reason to suppose that the experience of the Credit Foncier is more favourable.

sufficiency of the mortgaged property itself to cover the loan, but the guarantee of the association. These institutions were in all cases supported by the State; either the State ordered the formation of the mutual associations assisting them by subventions and privileges, and controlling them by strict rules, or, later on, similar societies were formed by private enterprise, but with the countenance of the State; in some cases the State itself founded and directed the banks. But in all cases the State supervises and controls the institutions. The older institutions did good work in Germany from 1770 to 1850, chiefly by introducing the possibility of loans on very long terms, for a creditor who required his money back, had not to demand it from the mortgagor, but simply sold his 'Association debenture' in the ordinary share market. Hence a proprietor could obtain loans and repay them at his convenience from the proceeds of the property mortgaged. But about that time, first in Silesia in 1849, the capital improvement was introduced of substituting the credit of the bank itself as the main security for the loans, which were thenceforward secured, not on a specific mortgage but on the mass of mortgages held by the bank, and by the general credit of the bank, including that of the solidarity of its members. This enabled the bonds to pass from hand to hand like ordinary Government paper or other stock, and permitted the introduction of the 'sinking fund' principle, which, in Europe, now governs almost universally the real credit operations of banks or associations; by this method a borrower not merely obtains, as before, a loan for a long term, but in paying his half-yearly interest, pays also an additional sum to a sinking fund, which gradually amortizes the whole loan in forty or fifty years. It was on this latter model that the great Crédit Foncier of France was founded, which, after several vicissitudes, has won its way not only to the position of the chief land credit institution of the world, but has done an enormous amount of good within France by means of its cheap credit, and, outside of France by providing a model for similar institutions in every country of Europe. Under the influence of its example, modern land credit institutions, properly so called, are now chiefly associations of capitalists (joint stock companies) and not associations of borrowers (mutual credit associations). Whether this is the final type of institution or whether a new development is possible, whether in India or elsewhere, remains to be seen.

Immense sums have been advanced by these various banks, but, with few exceptions, the loans do not reach below the class of owners possessing about 20 acres of land, and comparatively few go down nearly so far; land credit only reaches the small holder when the bank is small and local as in Switzerland. The expenses of branches or agencies, the cost difficulties, and risk of enquiring into and lending on small, distant and unknown properties and the repugnance which small proprietors have against dealing with unknown banks, effectually debar large central societies from any but large or considerable dealings, and these, except in the case of the mutual associations, are more generally urban than rural. The Minister of Agriculture for Germany sums up even the German situation in a few words, viz., that the real credit institutions are able to include in these loans estates down to peasant (bauerliche) team-owning estates, *i.e.*, those above 15 or 18 acres, but that "for smaller estates a mere land credit-bank is particularly unsuited"; real and personal credit must, in their case, be jointly considered, that is, the whole status and means of the would-be borrower. In other words small proprietors can only borrow from banks which intimately know them, their means, character, and the object of their borrowing, that is, small local banks. Whether it is possible to finance small local banks so cheaply and abundantly that they can supply the credit required is one of the chief problems for consideration; can the methods of Europe, viz., the issue of debentures, or any other methods, provide small local banks with cheap funds?

CHAPTER IV.—ANALYSIS OF EUROPEAN LAND BANKS.

An analysis of the organization and methods of the various European land banks will give a more complete idea of Real credit in Europe than the description of isolated institutions or separate countries. This chapter refers only to institutions especially established for the granting of Real credit, and not to ordinary banks which merely grant mortgage loans as part of their general business, nor to Savings banks which place much of their deposits in this form of investment; these latter will be separately dealt with.

Character.—All institutions for the special grant of Real credit are classified as private or public.

Class I.—Private institutions are associations either (*a*) of borrowers or (*b*) of lenders, that is, they are either associations of mutual credit consisting of landed proprietors united in a society for the purpose of obtaining loans at cheap rates for their members, on the common security of all, or they are ordinary joint stock companies, financed by capitalists, large or small, who are looking for a good investment, and who regard mortgages merely as the means of returning a good interest on their investments. Each class seeks its own profit, which in the former is cheap loans, in the latter high dividends. To a great extent the two classes of institutions are opposed in principle; practically however the second class are able to give cheap loans by reason of the abundance of their funds, and they are obliged to do so by the law of competition. Loans are however probably cheaper on the whole in the former class, since their credit is unlimited, they have no share capital to absorb profits as dividends, and all profits, if any, return to the members. The chief exponents of the former class are the Landschaften of Germany and the Boden credit institutions of Hungary; of the latter, the Crédit Foncier of France and the mortgage banks which have sprung up throughout Europe on the model of the French institution. The Italian banks are peculiar;

eight of these are specially devoted to Real credit, but are not recent creations; they are ancient banks which of late years have received special privileges from Government on condition of devoting a special department to land credit on modern principles, as in the French Crédit Foncier. These are now known as the privileged land mortgage banks of Italy. They are private institutions, several of them, notably the bank of Naples and Sicily being without shares or dividends, and based upon an ancient religious or pious foundation. Other banks are of the ordinary joint stock type, but are not allowed to deal in long-term mortgage loans with amortization, and upon issue of debentures, unless their capital is at least £400,000. A new society has now (1890) been promoted by Government with a special law in aid; it is however to be a joint stock company, but with special privileges and monopoly, and will be similar to the Crédit Foncier of France.

Class II.—Public institutions are those founded by the State, either by Government or by some local body whether province, municipality or commune. These are but few in number and generally of no great importance. Germany possesses a few, chiefly the banks established to redeem the ancient feudal charges which burdened the peasants. In Switzerland some of the cantons, notably Berne, have established State banks which are doing excellent work. Moravia was endowed with a similar State bank in 1880. But many of the land banks of Europe are largely controlled by the State; the Landschaften of Germany and the Crédit Foncier of France are notable examples, so that it is difficult to divide banks by a hard-and-fast line. This will be seen in the section on State intervention. In Russia there are State land banks of four classes: (1) those directly founded by the State, administered by the Finance Minister, and yielding profit to the State; (2) land banks under Provincial Governments directed by the Home Department; (3) institutions founded by communes; (4) institutions under the council of a particular charity under imperial patronage; all these were started before 1852 and little is known of their working. In 1882, a Peasants' land bank was established to provide capital for those peasants who wished to buy out their land; this is essentially a State bank.

Initiative.—Generally speaking, all land credit institutions prior to 1850 or even 1860 were due to the impulse of Government, varying from that of *direction* or direct fiat, to the mere passing of laws favourable to their establishment, such laws being frequently necessary by reason of a prior restrictive legislation such as is generally unknown in England and India. The part played by Government initiative will be dealt with below *s.v.* ' State intervention, and will be also gathered from the sketches of the various banks.

Some banks, however, have had a purely philanthropic or patriotic origin. Apart from the Savings banks—to be hereafter dealt with—the Italian banks were in many cases works of charity (Monti Pie) and the great bank of Naples is the result of a fusion of seven Monti of old and charitable foundation. The chief land banks of Hungary are patriotic and philanthropic institutions, *e.g.*, the Boden credit institution of Buda Pesth which was established in 1863 by a number of large landed proprietors who subscribed foundation shares at fixed interest below market rates in order to start the society. It has no shareholders proper, and no dividend, and is very successful in its way. Another society was similarly founded in 1871, and another, specially for the relief of small proprietors, had a similar philanthropic origin in 1879.

The remaining banks, principally those founded in the latter half of the century, are joint stock banks, due to private initiative, but—as will be seen—though very successful, they deal chiefly with urban property; in Germany alone thirty-one were founded between 1860 and 1880, and others since; these come under the ordinary law of the Empire and not under any special law; on the other hand they are not restricted to land mortgage operations unless by their own statutes.

Principles.—The foundation principle of the several banks is various; some are based on the principle of mutuality; the Old German Landschaften are the best types of this class, which are generally founded by persons likely to become borrowers, who, in order to obtain cheap credit, unite with an unlimited guarantee, and who divide all profits among themselves usually by reducing the price of loans. They give very cheap credit through having neither capital nor dividends, and through there being no antagonism, but rather identity of interest between the banks and their clients. Some are Government institutions founded in view of providing cheap capital for agriculture; Russia, the small German States, Switzerland and Austria are the chief exponents of this principle. The modern type is that of the joint stock bank, limited, in which money is invested for the sake of dividends.

Objects.—The objects of the societies are diverse; in the Old Landschaften, the chief object was the relief of the ' noble ' proprietors, who were much distressed by usury and war. The redemption of ancient and oppressive private mortgages by loans from the society at moderate interest and on long term is a second and general object. The relief and development of agriculture (*a*) by restoring to it the capital diverted by usurious debt, (*b*) by providing cheap capital for improvements and for family purposes, (*c*) by bringing into industrial circulation the petty hoards of capital available but unused is a third; a fourth object is the reduction of the general rate of interest by means of institutions of good security working on a large scale with cheaply borrowed capital, thus breaking the monopoly of the usurers, or of other imperfect methods of supply, and governing the rate at which capital could be properly lent. The Crédit Foncier of France and the institutions based on its example are noteworthy examples of this class. A fifth object is found only in the modern joint stock pattern, where capitalists seek a good investment for their funds, and establish banks for the purpose of earning dividends as high as security and competition will allow them. A sixth object is that of loans to public bodies—communes (villages),

district boards, municipalities, &c.—for public purposes, the security given being that of the corporate property available, or the local rates and taxes. Here again the Crédit Foncier of France led the way and has been followed by societies of that type. A seventh object is found only in a few special banks, viz., the redemption of rent charges, feudal dues, &c., by peasants especially in Germany, Austria and Hungary, and the buying in of their lands by the ex-serfs in Russia. An eighth and very rare object is that of dealing solely with petty proprietors; in most land banks no application for a loan will be entertained when the property is worth less than about £83, *e.g.*, 1,000 florins; in many of the banks in fact the minimum *loan* that will be given is 1,000 florins (rupees); as will be shown, real credit institutions in general have, in consequence, done little for the small proprietor. A ninth object is that of lending on urban property either for ordinary loans or for special building purposes; these are all of the modern type, and such operations are expressly excluded from land banks proper such as the German Landschaften. A tenth object is the encouragement of thrift by establishing Savings banks, in which case loans are given on mortgage by the Savings banks, in order to obtain a profitable investment of their deposits. An eleventh and very important object is that of the new Central banks, formed not to lend direct to borrowers, but, almost solely, to facilitate cheap credit by the issue from a central institution of national reputation, of central debentures in representation of debentures issued by small local banks. A twelfth object is land improvement, pure and simple such are the land improvement societies of England and the Landeskulturrentenbanken of Germany; these are generally, if not invariably, the last development of land credit.

Hence banks which grant land credit are as follows: (1) land credit banks proper, whether mutual, joint stock or State, such as the Landschaften, the Hungarian Boden credit institution, the Crédit Foncier of France and the State banks of various German States and Swiss cantons; (2) the rent charge redemption banks as in Germany and Russia; (3) communal and benevolent societies of various sorts such as the communal societies of Hungary and the Hülfskassen of Germany; (4) the Savings banks; (5) ordinary banks, which are excluded from this study; (6) Central land banks; (7) Land Improvement banks or annexes of banks.

Capital.—The oldest forms have practically no original capital; they were assisted at starting by a subvention, at low interest (*e.g.*, 2 per cent.) by the State, but they had neither shares nor capital, their funds, beyond the above subsidy which was only intended for first expenses and as a reserve, proceeding entirely from debentures issued in representation of loans granted, at first in immediate representation of specific loans, afterwards, *en masse* in representation of the aggregate of mortgage loans granted by the society. On the other hand, the banks of Naples and Sicily have immense capitals, derived from religious foundations (Monte Pie), but no shareholders, so that they have no dividends to distribute. But in general modern institutions are joint stock companies with a substantial capital, usually partly paid up. This capital may be foundation or ordinary, variable or fixed. Foundation capital is that provided by persons either merely philanthropic or interested in promoting cheap credit; such are the Hungarian banks above alluded to. In the Hungarian Boden credit institution the founders' shares were £417 each, of which 10 per cent. was paid in cash and the remainder in bonds which were merely kept in deposit, and in fact—in that bank—have been returned to the subscribers as not required, owing to the formation of a strong reserve to which all net profits go. This foundation capital bears a *fixed* interest of 5 per cent. which is below the ordinary Hungarian market rate, and has no claim to any dividends out of profits. Foundation shares may be paid off whenever the property of the bank permits it, but are also retained as fixed deposits. The State subvention may be called a foundation share, and, as in the cantonal banks of Switzerland, frequently takes the form of subscription for shares; in many cases it is paid back when a reserve has been established. Ordinary shares need no remark. In some banks the amount of capital is fixed, so that operations, which are usually limited to a multiple of the capital, are also limited; but in most, the capital progresses up to a certain maximum with the operations; *e.g.*, in the Crédit Foncier of France the maximum capital fixed by the statutes is £8,000,000 sterling; the actual capital at any moment must be one-twentieth of the bonds in circulation and is now (1892) £6,820,000, the debentures, mortgage and communal in circulation, aggregating about £120,000,000. In the German and Austrian banks, the necessary proportion of capital to debentures is 1 to 5, 1 to 20, &c. Many banks, even when constituted with a capital of their own, obtain State subventions, *e.g.*, the Crédit Foncier of France has a grant of £400,000, but this is usually credited to the reserve.

Reserve.—The reserve is an obligatory element in all cases. The German Landschaften provide a reserve from the principal or interest of the State subvention, from profits, from unforeseen receipts, and from profits on the issue of their debentures, from contribution and commission paid by borrowers *ad hoc*, and included in the annuities or deducted from the principal at the time of borrowing. The Hungarian Boden credit institution has, as a reserve, the founders' shares—one-tenth paid up—the Government contribution for the purpose, the whole net profits of the institution, the special guarantee fund, and a percentage payable by the borrower with each annuity. Te first two have been described under capital; the third is possible in this institution, since—as there is no share capital—there are no dividends to be paid; the fourth item is derived from a 1 per cent. deduction from the amount of all loans made at the time of payment, but returned to the borrower with interest afer his loan is paid off; the fifth item is a 0.06 per cent. addtion to the annuity. The Crédit Foncier of France takes for its reserve from 5 to 20 per cent. of its net profits, and it should

accumulate up to a maximum of one-half of the share capital. The employment of the reserve is various; in general it is to guard against unexpected losses; in some cases its interest goes to pay for the administration. The funds of the reserve are usually invested in Government paper or other good securities or in small and safe banking operations of quick return. There are special reserves as noted under the Crédit Foncier of France *e.g.*, to equalize the proceeds of reserves as noted under the Credit Foncier of France, market; to provide against the loss on repayment at par of bonds issued below par; also for the issue of lottery prizes and bonuses.

Funds.—These are provided from capital, from accumulations of profits, from Government loans or grants, from mortgage debentures, from deposits, loans and bank notes. The first three have been dealt with under capital and reserve, and are comparatively unimportant as sources of funds though all important as security; *e.g.*, the capital is usually only one-tenth or one-twentieth of the amount of the debentures issued by the society in the case of the German institutions and the Crédit Foncier of France, and in some, as in the Hungarian Boden credit institutions, there is practically no capital, but only a reserve. In the later commercial or mortgage banks the capital is a real working capital, as in the Hypotheken mortgage bank of Hungary where only one-tenth of the nominal and one-fifth of the paid-up capital is used as a guarantee fund (reserve) for the security of its debentures; so in Germany, the banks since 1860 use their share capital in mortgage operations, and with some which have not obtained Government authority to issue debentures, this capital is an important element in their working funds. Such banks can deal only to a very limited extent in loans for long terms repayable by annuities. In Belgium in 1890 the paid-up capital of the four chief mortgage banks varied in actual fact from one-fourth to one-twentieth of the debentures issued, and in Italy in the same year the eight mortgage banks —including the National bank—had a capital of £1,760,000, and debentures in circulation for £28,062,200. As shown in describing the Crédit Foncier of France, a certain proportion of its capital, and even of its reserve is used in short-term loans, but this is not its true use; it is a guarantee fund.

Land Mortgage Debentures.—The great source of funds in all these institutions, whether the German Landschaften, the Crédit Foncier of France, and its replicas or mortgage banks in the rest of Europe, is the interest-bearing mortgage debenture (Pfandbrief, obligation foncière). This, in its old form, originated in the last century, was merely a bond of from £4 to £20, given by the bank to a borrower in representation of a mortgage bond executed by him; it expressly indicated the particular property mortgaged, and this property alone was the material guarantee for the specific bond; the bank was only an intermediary between a direct lender and a direct borrower who were the parties in actual relation, and gave merely its guarantee, as a bank, that the mortgage was a good one, and that payments would be duly made; the lender looked to the borrower for principal and interest, and not to the bank, which only took proceedings against the borrower in case of non-payment. This of course was an immense advance from the mere private system, for the lender had nothing to do but to buy the bonds in the market, relying not on his knowledge of the mortgaged property, but on the guarantee of the bank which was liable in the property of all its members for the guarantee; if the mortgagor failed to pay up, the lender came eventually upon the bank. If the lender wanted his money, he had merely to sell his bonds in the market, thus transferring his debt to another creditor. This took place without expense save that of brokerage, if any, and was very different from the action and expenses necessary when a private mortgagee, in want of his money, transfers his mortgage, after diligent search for another capitalist, to a third party. Moreover the holder of bank debentures need sell only so many as he desires—the debentures being usually for small sums—whereas a mortgagee must usually transfer the whole or nothing.

Hence the debentures of the Landschaften became current stock, which very soon rose to its par value and fairly maintained that value, owing to its double guarantee, even in the worst times. As for the borrower he enjoyed loans for very long terms, without possibility of foreclosure, so long as he paid his dues, and since the banks could issue to any amount, he could get as large a loan as he wished on first mortgage, whereas in the private system he could only get from one lender as much as that lender could afford, and any subsequent loan from another lender would only take rank as second mortgage and therefore be expensive.

This form of bond specifying the mortgaged property was subsequently modified in order to render possible the sinking fund system which the specialized form did not admit, since the bank did not receive the periodic payments, and no creditor would receive his principal by petty sums spread over many years. Hence the banks issued a new form in which the bank itself became the direct creditor of the mortgagor, and issued its debentures solely in its own name, and without specifying any particular property as the security; hence the buyers of the new bonds became the creditors, not of a specific person, but of the bank, and their security was not a particular property, but the whole mass of mortgages held by the bank, *plus* the security of the bank itself.

These new debentures payable generally to bearer, sometimes to order, are those now in universal use, and provide funds to any extent upon mere issue. The Crédit Foncier of France issues them in masses of from £10,000,000 to £36,000,000, the plan adopted being to divide them into numerous series and issue them by series as soon as loans have been effected to the value of a series; *e.g.*, in 1879 a loan of £36,000,000 was sanctioned in

1,800,000 bonds, divided into 180 series, each of 10,000 and of the nominal value of £200,000 The Belgian Caisse des Propriétaires issues its debentures on the 1st of every month according to the amount of loans accepted during the preceding month.

In most cases, these debentures, though issued for sums from £20 upwards, are subdivided into detachable " coupures " of perhaps £4 or £5, so that even poor persons may invest in them; in Germany as in France, the minimum is fixed at £3 to £4, and in this way, being based on the land, they form a body of stock which realizes the old dreams of the " mobilization of the soil. "

All debentures are repayable as the mortgages are redeemed; every unit of capital repaid by borrowers must be followed by a similar redemption of debentures of that series. These are not repaid according to their consecutive numbers, but the numbers to be paid off are determined by lot. It is this which helps materially to keep bonds up to their par value, each debenture being repayable at par; hence, though a 3 per cent. bond for 100 is issued at, say 85, its market value immediately rises, because of the chance of its being speedily drawn for repayment which will be at par. Moreover in some issues each bond of perhaps £20 is repaid with a premium or bonus from profits, often very considerable; in other issues, and these are greatly in public favour, a certain number at the periodic drawings obtain heavy lottery prizes from £4,000 downwards; *e.g.*, the French Crédit Foncier loan of £36,000,000 of 1879 with 1,800,000 bonds repayable wholly within sixty years, has six drawings per annum, so that on an average 30,000 bonds worth £600,000 are annually repaid at par, and of these 600 each year get prizes worth £86,400.

The holder of a debenture cannot demand repayment until his number is drawn. Ordinarily, *per contra,* the bank only repays either by the usual drawings or by special drawings when mortgages are paid up in advance; in some places however, the bank can buy up its bonds from particular holders by giving six months' notice; or it can go into the open market and buy in its paper at the current rate. These powers are necessary so that the banks may be able to maintain the equilibrium between its debentures and its securities and to avoid an accumulation of idle funds; moreover it is enabled in this way to convert its debentures to similar ones at lower rates; this is not unfrequent among the Landschaften.

Occasionally short-term debentures up to ten years are issued; these are repayable at notice by either party.

The market rate of these bonds has always been high; in 1848 the German Landschaften debentures at $3\frac{1}{2}$ per cent. were quoted at 83 to 96 per cent. when social difficulties caused general depreciation of stock, and Government 3 per cent. paper was quoted at 69; in 1850 the 4 per cent. debentures were at 102 and 103; in 1882 the quotations for thirty banks were about the same, while those at 5 per cent. were considerably above par; $3\frac{1}{2}$ per cent. bonds were then quoted at from 90 to 96, and it may be taken that $3\frac{1}{2}$ per cent. is now the usual rate for debentures and that at this rate they are at or very near par. Even in Hungary the 4 per cent. bonds were quoted at $96\frac{3}{4}$ in 1888, and 5 per cents. at 101 and 102 when the State 4 per cent. land redemption loan was at 88-89, while in 1889 it is said that even the 4 per cent. scrip was at 98; in 1890 Belgiam 4 per cent. bonds were at 99 to 100, and even in Italy, where the Crédit Foncier system is not well established, the money market abnormal, and money very dear, these bonds suffered less in 1889 than the public funds; quotations however were for 4 per cent. 96.9 and 96.6 in the best banks, and 93.4 and 94 for less esteemed scrip at 4.3 per cent. interest. It should be noted that in Germany all the Landschaften are entitled to issue debentures; but the joint stock mortgage banks are only allowed to do so on the authorization of Government, and some have not obtained the privilege. Similarly in Italy only eight land mortgage banks proper have this privilege as a right; other banks only on certain conditions as to sufficiency of guarantee, capital, &c., and by special authorization. In Switzerland, however, every bank, carrying on land mortgage operations, has the right to issue debentures and requires no special order.

A very rigidly guarded rule is that the amount of debentures in circulation shall in no case exceed the amount of loans outstanding, otherwise some of the bonds would be uncovered by guarantee in the way of mortgaged property; they would possess only the guarantee of the bank itself, instead of the complete double guarantee which gives them that absolute security which ensures their popularity and market value; hence as soon as any loan is repaid, that amount in debentures must be withdrawn from circulation. The duty of maintaining this equilibrium is variously allotted; in Germany and Austria it is usually the special duty of a Government commissioner who has to countersign all debentures and see, by frequent inspection of the accounts, that equilibrium is maintained; in Italy there is an inspector for the same purpose. In France the directors of the Crédit Foncier, amongst whom are three high finance officers of Government, settle the issue, &c., of debentures; their resolutions are not valid till confirmed by the governor who is an officer appointed by the State and who must countersign all debentures. Moreover the three auditors (censeurs) are expressly bound to examine this subject. The penalties for disregard of this rule are very severe; by Hungarian law the directorate of a bank are liable to three months' imprisonment either for excessive issue or for failure to withdraw debentures, as well as for other defaults. They must be registered and stamped and must not be issued below a certain minimum, which in the Crédit Foncier of France is £4.

Certain legal privileges are attached to these bonds; *e.g.*, in France, holders are absolutely entitled to payment of their value or their interest as against all third parties, and the Courts cannot admit action by third parties to attach or obtain such sums. The only case in which the Courts can entertain actions as against holders is when the bonds have been

lost, in which case the *bonâ fide* loser may bring an action against a holder, provided he has at the time of loss given notice to the bank of his loss. They are also admitted as securities in which trustees may invest the property of minors, married women or incapacitated persons, and of public institutions, communes, &c. The bonds are also occasionally fiscally privileged, the stamp, registration and transfer duties, being all considerably reduced in their favour in France; in Hungary the interest coupons are not taxed, while in the quasi-State bank of Galicia the interest coupons are stamped, but the debentures are not.

The invention of these debentures seems to be a most fruitful and useful conception, and a source of wholly undreamed of possibilities whether for Europe or India. Apart altogether from the capital development rendered possible by these bonds, viz., that of the gradual amortization of the debt—a development in itself of essential importance in land credit—these bonds permit of a drawing together of petty hoards from every quarter of the country; they form by their sub-division (coupures) a method of investment open to the poor as well as to the rich; they provide an almost perfect security for savings and return a good interest; they are transferable by mere delivery or, if personal, by mere endorsement (except when the law of the country requires a separate document), so that a holder can obtain the whole or any part of his savings practically at will; there is neither legal nor fiscal expense in the transfer; money is placed with the society which gives in return an interest bearing receipt; this, as against themselves, is not repayable except at its full *échéance* which in these cases is either the full time of perhaps forty to sixty or even seventy-five years, or the periodic general or special drawings; on the other hand, the holder can transfer his rights to another by simple delivery or by endorsement. Hence the advantage of these debentures over deposits is (1) to the bank that it can never have a mass of deposit funds lying idle and consequently either infructuous and costly, or liable to be hastily invested in unsafe transactions in order to avoid such infructuousness, for debentures are only issued as loan transactions demand them; (2) that, as the debentures are practically synchronous with the loans, the latter can be granted for as long a term as may be wished without fear of unduly locking-up capital, whereas deposits being repayable at call or at most at the end of a year, either there is constant danger of stoppage from the locking up of funds, or a great deal must be kept in reserve in liquid securities—a system inimical to the interest of a land bank; (3) there can be no run on the bank in case of panic, often ill-founded, as happens with deposits; (4) the bank's creditors are benefited for their money is safely and leisurely placed in good securities, instead of hurriedly in bad or indifferent ones; (5) investors can obtain their money at will, viz., by sale of the bonds in the market and without making any demand on the bank.

It should be specially noted that certain Central banks have been started in Germany, one by a group of Landschaften, the other by the mortgage banks, solely for the purpose of issuing Central bank debentures. It was considered that the credit of a great Central bank, like the Crédit Foncier of France, issuing its debentures in several languages so as to meet foreign markets, especially London and Paris, would have immense credit, and find a ready sale at rates of interest below those of mere local banks. They seem to have been pretty successful and the 3 and 3½ per cents. stand well in the market. It would seem, however that the local banks themselves enjoy such good credit owing to their reputation for soundness and solidity that the Central banks are hardly necessary; it would be far otherwise if the local banks were obscure novelties, started, for instance, in a Madras district.

The method of issuing these central debentures is simple: the local bank arranges the loan with the borrower and sends the documents including the borrower's mortgage deed endorsed over to the Central bank which then issues its own debentures for the amount of the loan, retaining the documents as its security.

It is advisable to complete this subject by describing the English form and law of mortgage debentures. The issue of these is governed by 28 and 29 Vic., chapter 78, and 33 and 34 Vic., chapter 20.

Only companies, under the Companies' Act, entitled to lend money on the security of land, may issue these debentures, and they must limit their operations to lending on real property and on securities based on real property other than mines, mills and factories; their individual capital must be at least £100,000 in shares of not less than £50, of which not less than one-tenth or more than half must have been paid up. The controlling authority is the office of land registry established by 25 and 26 Vic., chapter 53; in this office all mortgage securities must be registered and deposited when debentures are to be issued thereon. The registrar opens a register in the name of each company, in which every security is entered as it is brought, together with a precis of its chief contents; with each security must be a surveyor's valuation report or certificate. Upon the mass of its securities thus registered and deposited, the company may issue its mortgage debentures, but so that the aggregate amount may never exceed the total value of the securities or of ten times the amount of its unpaid share capital whichever is less; all the securities together are charged with the payment of the aggregate of debentures issued, and to secure this, a quarterly return must be made to the registrar showing the value of all securities held, the value of other instruments and shares, the number, date and the value of all existing debentures; the registrar must keep a register of all debentures in his office separately for each company. The penalty for any excess or unauthorized issue is £500 in case of any person concerned, and suit may be made by any person.

Each company must keep a register of all debentures, entered up as issued. On the redemption of securities by borrowers, the company must prove to the registrar that the

aggregate of all the existing debentures does not exceed that of the securities exclusive of those to be redeemed; in that case the redeemed securities are delivered by the registrar to the company.

No debenture may be issued for less than £50, nor for less than six months or more than ten years, but a provision is made for repayment at any time on six months' notice by either party; each debenture is a bond to be duly signed and stamped as such; it must bear a serial number and must contain an endorsement as to the capital of the company and the amount of the registered securities as per last quarterly return; no provision, however, is made for endorsing an entry of the amount of debentures then existing. When executed and stamped each debenture must be taken to the registrar, who will enter in his debenture register above mentioned, all the main particulars, and will endorse it with the date of registration and page of entry; without such endorsement, no debenture is a valid charge As each debenture is discharged, the registrar, on proper proof, must enter the fact in his register.

Debentures may be transferred by endorsement, but the transfer must be registered in the company's books.

No provision is made for the method by which debentures are to be selected for cancellation when the company desires or needs to cancel any; it is not stated whether the oldest are to be selected or whether selection is by drawings. This latter method is adopted in England for the ordinary class of commercial debentures.

It will be seen that great precautions are taken, as in Europe, to ensure that land debentures are properly covered by the securities.

Deposits.—Deposits play a comparatively unimportant part in societies of the nature described; when every loan is financed by the emission of a corresponding debenture, deposits can find no employment and are a needless source of expense and danger; in order to employ them the bank must enter into ordinary banking operations with all their risks and with the chance of locking up money repayable at call. Hence, though deposits are received, they are not sought after by the land banks proper; they are, however, occasionally received since they provide funds which, devoted to short loans of ninety days, &c., or invested in liquid securities, furnish the needful circulating capital (fonds de roulement) without loss of interest. As an example the Crédit Foncier of France had, in December 31st, 1890, deposits on account current of about £3,300,000 in 19,025 accounts; the interest given was only one-half per cent. and the movement for the year in deposits and withdrawals, nearly £22,000,000. Since these funds were largely invested in Government paper and in short-term loans, they returned a good profit. The statutes of the society forbid the receipt of deposits above £4,000,000, and order one-fourth to be placed at interest in account current with the treasury, and the remainder either in Government paper, treasury bonds, ninety days' advances or securities recognized by the bank of France, or in ordinary commercial bills with at least two securities payable to the society's order.

Of the Swiss mortgage banks some, such as the Caisse Hypothécaire de Fribourg, are not authorized to receive deposits, so that the whole available funds, outside of their share capital and reserves, consists of the proceeds of their debentures.

Borrowed Funds.—These require no special mention, except to show the occasional relationship between the land banks and the ordinary banks; *e.g.*, the Swiss Caisse Hypothécaire Vaudoise has a cash credit account with the cantonal bank, and with others if necessary, and has also at disposal—in trust—part of the funds of the cantonal Savings bank and the reserves of the cantonal insurance society. This land bank moreover obtains funds by the issue of ordinary debentures having no relation to the mortgages accepted by the bank, but simply raised on the credit of the bank, their holders taking rank only with the mass of creditors.

Bank Notes.—The great success of the Scotch banks fastened attention on their system—almost peculiar to them—of issuing their own notes, and the alluring schemes drawn up, especially in France, based upon a paper issue, were as endless as baseless. It was soon perceived, however, that the Scotch success was chiefly due to prudence of administration and to the adaptability of the system to Scotch conditions and national characteristics, so that the banks grew into success by reason of their fitness to supply a want; it was not merely by reason of their paper privilege, which was a convenience and an economy rather than a source of funds. Hence few land banks proper have any right to issue notes; in France none; in Germany only one is now discoverable, that of Bavaria which may issue up to two-fifths of its capital and £660,000 in notes inconvertible (cours force) from 10 florins (nearly £1) upwards. In Switzerland some of the banks, *e.g.*, Thurgau and Basel, are authorized to issue notes, but these banks also carry on banking operations other than mortgage loans.

The rarity of this privilege seems to show that it is not generally feasible and is quite unnecessary; in one case the bank's notes are only current by reason of the " cours forcé ". The place of notes is taken by the debentures and their sub-divisions, which have the advantage of bearing interest, and by the interest coupons themselves. These latter—interest coupons—are detachable and payable to bearer, of course only at maturity; hence they frequently circulate as a species of currency when a debenture is drawn for repayment, the value of all unpaid interest coupons not presented with it, is deducted, and the coupons themselves are subsequently paid to the holder on presentation at maturity.

Security of Creditors.—The security here to be considered is simply that of the holders of debentures and of the other creditors of the societies; under the heads of ' Privileges. '

' State supervision, ' ' Administration, ' ' Audit, ' ' Loans, ' &c., will be mentioned the precautions taken for the general security of the society and its operations. The debentures enjoy by far the highest security; they are completely guaranteed by the whole mass of the mortgages held by the society, as well as by the general position of the society itself; and since (*a*) the amount of the bonds issued must not exceed that of the loans granted; (*b*) the amount of each loan must not exceed half the estimated value of the property mortgaged, and takes rank as a first mortgage; (*c*) the valuation is very strict and even severe and the examination of title and security very careful, the debentures have a very ample material guarantee. Moreover in all the mortgages, the value of the security increases as the debt thereon is paid off; if a property worth £100 suffices as security for a loan of £50, *à fortiori* it is more than sufficient as the debt is gradually attenuated by amortization. Further, the society has a privileged and summary method of procedure against defaulters, which adds considerably to the security these bonds offer. Debenture-holders in common with other creditors such as depositors, are further guaranteed by the whole amount of the capital if any, and reserves including the Government subvention.

The societies which, as in Germany, Austria, and Hungary, are mutual credit societies or associations of borrowers have, in lieu of the guarantee of a share capital, the joint guarantee of all their members in all their property, under the prevalent system of unlimited liability. In some, however, the liability does not extend to the whole property of a member, but only to the specific property pledged to the society for the loan (*i.e.*, whether he is in default or not the specific property pledged is liable for the society's debts) or, in some cases, to an amount equal to his loan and a fraction more. In certain rare cases the State or Provincial Government adds its guarantee, and in the Austrian joint-stock banks it is lawful, if not compulsory, to declare specific portions of the assets to be a special guarantee fund for the debentures, so that other creditors have no claim on such fund until debenture-holders have been satisfied.

In the Hungarian land bank associations the usual securities for the debentures are (1) the mass of mortgaged property which the bonds represent, (2) the joint guarantee of all the members (in mutual societies only, *e.g.*, the Boden credit institution), (3) the capital (in joint stock companies only), (4) the reserve fund, (5) the mutual guarantee fund.

In the Swiss banks there are peculiar rules; *e.g.*, in the mortgage bank of Berne, which is a State (cantonal) bank, a loan is granted only on the recommendation of the communal council (village assembly) and all the inhabitants of the commune are then held liable for the loan or for the value of the property entered in the survey register (cadastre) and the commune must also report to the bank any depreciation of the property; the inhabitants have their remedy also against the council. This gives very compleete security for the loans and consequently for debentures.

Privileges.—These are of various kinds: financial, such as subventions and guarantees from the State; the permission to issue mortgage debentures recognized as securities in which trust funds may be invested; the preliminary purchase of a number of these bonds to give the society a start (Credit Foncier of France); privileges of State direction and supervision, privileges at law, as in the grant of summary powers and speedy procedure; the non-liability to attachment by Courts of debentures or the interest due thereon; fiscal privileges in the exemption—whole or partial—from certain classes of taxation, stamp and registration duties, &c.; executive, such as the utilization of Government officers, whether metropolitan or district, and Government treasuries, for the collection of annuities and the promotion of the bank's interests. These privileges are not found in all banks, nor does any bank enjoy all of them: some banks have some privileges and some others; many have none.

The financial and other privileges relating to debentures have been stated in a previous section *s.v.* ' Funds, those relating to State intervention will be described hereafter under that head—*see* also ' Subventions ' and ' Monopoly; ' those relating to the security of loans and the recovery of money will be found under ' Loans. '

The only privileges therefore to be now described are *fiscal.* In Austria (Galicia) the land credit association founded in 1841 by the Provincial Government and with their guarantee, under the auspices of the Imperial Government, but in its constitution a free association of proprietors, and not a State bank, issues its bonds free of stamp duties and other charges, and their transfer is similarly free; the interest coupons however are stamped. In Denmark the bonds are free of stamp duty, and money orders sent to the society in payment of dues, pay reduced postal charges. In Hanover all transactions of the bank, except remittances, are free of postage. It does not appear that in Italy there are any fiscal privileges attached to the land bank operations. In Germany, the Landschaften as being mutual societies and not joint stock companies, are free of income-tax which is the most onerous of direct taxes (*cf.* Hungary); but the other land mortgage banks are not so privileged, a fact which greatly favours the Landschaften, which however pay all other taxes and stamp duties in common with other banks. The new Land Improvement banks, which are public institutions devoted to loans for land improvement only, enjoy " such freedom from stamp duties as is conceded to " the Fisc, " as also freedom from charges for registration in the Grundbuch: these privileges are granted in consideration of the interest which the State has in improvements in general agriculture, and are paralleled by similar privileges granted by the law of 2nd March 1850, regarding the establishment of public rent charge redemption banks. In Hungary the State dues on the interest coupons of debentures are remitted, and also the tax on earnings (income-tax) as regards the two Mutual Boden credit institutions only: the latter exemption means a large profit to the

bank, since one non-exempted bank had to pay £17,000 per annum under this head alone; there is however no remission of stamp duties on loan transactions. In France there is no exemption from stamp or other duties, but these are at favoured rates in the case of stamps and registration charges on the debentures issued by the Crédit Foncier, and an additional privilege is indirectly given in that which frees the society from the necessity of renewing every ten years, as in the case in the general law or lender and borrower, the registration of the bonds taken from its debtors; this of course dispenses with the charges due upon such renewals.

Rates of Taxation.—In general the land banks pay taxes just as other banks. In Germany, except the Landschaften, they are in no way privileged, but pay a 3 per cent. income-tax, beside other duties. In Austria the taxation on all banks together, including the land banks, amounted, in 1889, to 24 per cent. of the total expenses for the year. In France the debentures of the Crédit Foncier pay as follows: on the bonds to bearer 3 per cent. annually on the interest, and 0.2 per cent. annually on the value; bonds to order pay an annual tax of 3 per cent. on their interest, and 0.5 per cent. of their value on transfer. All prizes and bonuses pay 3 per cent. of their amount to the State. The Italian banks are very heavily taxed, the rate being 13.20 to 13.57 per cent. calculated on either the whole income or on three-fourths, according to the source of the income, while the pressure of the income-tax in Hungary usually 5 per cent. on the income, without deduction of debts, may be seen from the fact mentioned above.

In the countries of Europe generally registration is necessary to the validity of bonds a rule made largely in aid of revenue, the charges being very considerable. In France the debentures of the Crédit Foncier must be register, but pay a favoured rate of 0.1 per cent. instead of 0.5 per cent. as in the case with the debentures of all other societies. This does not affect the mortgage deeds between the society and the borrower, which are subject to the usual charges. The mere taxation of the Crédit Foncier amounted in 1890 to no less than £462,000, payable partly by the society, partly by its share and debenture-holders, while its clear profit—all charges, taxes, &c., deducted—was £888,000. The stamp duties are payable by borrowers in all cases without special privilege.

Clientèle.—The oldest banks were formed on the principle that only members might borrow: this is maintained to this day in the Landschaften and is continued in all popular banks and mutual credit societies. The question then is, who may become members? In the Old Landschaften only "nobles" could be members; the banks were expressly founded for them, the "peasants" being disregarded. Gradually however this restriction to some extent disappeared; peasants were admitted with restrictions—to borrow, and the New Landschaften generally admit them. But a restriction is found in the minimum prescribed for loans; in some cases loans may not be given on property below £83 in value; generally the loans may not fall below £42 or a considerably higher sum, their minimum being prescribed by the statutes. Even where the minimum loan is fixed at a small sum, in practice the loans actually granted are considerable; small business is risky, troublesome, and unprofitable to the bank, and is not undertaken. The Hungarian Boden Credit society, for instance, had in view the large and medium landholders; it was founded by rich and paarioeic men, of the aristocracy (epar la munificience des grands propriétaires, par l'aristocratic hongroise,—M. L. deWagner), and by statute, will not lend sums below £83, *i.e.*, practically, on estate of less than 50 acres, though one-third of the whole area of the country is held in estates below 44 acres. As a matter of fact the loans average far above the minimum in this as in almost all other land banks; even the cheap and popular savings bank of Milan cannot in practice lend in Venetia on estates below 75 acres in area, whatever it may be able to do in its own neighbourhood, while the general average of the Italian land banks is very far above that. Hence the small proprietors are not the clients of the land banks: practically none below the proprietors, who in Germany are known as team-owning farmers, *i.e.*, who hold above 15 or 18 acres, can hope to borrow.

The joint stock banks, such as the Crédit Foncier, will lend to any one who can offer good real security, but, as a rule, have a statutory minimum for loans, and in practice lend considerably above that minimum. The real peasant class holding below 20 acres, are not reached by the land banks generally; practically they are financed, as regards mortgage loans, by money-lenders only, and occasionally by Savings banks, except in Switzerland and in some of the very small German States. Mere land credit banks, said the German Minister of Agriculture (1887), are unsuitable for the needs of the small peasant, *i.e.*, of men holding below 15 or 20 acres.

Administration.—This, as regards the Crédit Foncier of France, has been sufficiently dealt with in the section treating of that company. There is a board of directors elected by the general assembly with an official element in the governor and sub-governors and three Government officers of finance. The committee of control is also elected by the general assembly and has large powers of supervision; the general assembly not only elects the directors and controllers, but can also modify the statutes, settle the dividend, &c. The real power appears to be with the governor who is appointed by the Government *quamdiu se bene gesserit.*

There are seventy-three district agencies, and a consideration of these is important; originally the law authorizing the societies ordained that branches were to be started within the jurisdiction of each Court of appeal, so as to bring the society to every one's door; from each branch other agencies were to be directed. In 1854 this was altered and the establishment of branches was made optional, and not till 1879 was any attempt made in

the direction of district work, a fact not without its lesson for India. As might have been expected, a great demand at once sprang up for loans, and soon sixty-five, now seventy-three, direct branches or agencies, were at work. The work of the agents is to bring the operations of the Crédit Foncier to the knowledge of landed proprietors, communes, and public bodies; they instruct borrowers as to the formalities required for getting a loan, aid them in reducing to writing and filing their desires and petition. They advise the central board, pay out the loans granted by the board, and receive subscriptions for the society's debentures; annuities, it will be remembered, are paid by borrowers into the local Government treasury. They receive a fixed salary and commission on operations effected; and it is proposed to assist them by a committee of local persons of influence. To judge by the figures of recent years, the agencies have not been successful in promoting small loans on land, whatever they may have been for other purposes.

The above system of administration is with modifications, that adopted by the joint stock banks of the rest of Europe, *e.g.*, that of Austria, in which however the governor is proposed by the Board of directors though actually appointed by Government; his assistants are appointed by the Minister of the State Department which supervises the bank But there is also a Government commissioner—not found in the French society—who has great powers of supervision and of veto; *see* ' Austria, Boden Credit Anstalt ' *supra*. In the Central Prussian land bank, which is a joint stock company, the board of directors elects the president and his assistants, but the appointments are subject to the approbation of Government; there is also a Government commissioner of control. In the German mortgage bank of Berlin, also a joint stock bank, the president is elected by the board of directors apparently without submission to a Government, but every operation of the bank is subject to Government supervision and control. The Crédit Foncier (joint stock) of Southern Germany at Munich has two directors chosen by the committee of supervision which consists of twenty-one members chosen by the shareholders. But Government reserves a right of supervision by means of a commissioner appointed *ad hoc*. The Pomeranian mortgage bank (joint stock) has a directorate, committee of control, and general assembly, but Government takes a chief part in its business operations. No shareholder can dispose of more than twenty votes, and ten shares only gives one vote. The joint stock ' Crédit Foncier et communal ' of Alsace Lorraine, founded in 1872, is administered by directors, by a committee of supervision, by the general assembly of shareholders, and by a Government commissioner. The directors are nominated by the committee of supervision which in turn is elected by the general assembly; no shareholder can have more than ten votes and ten shares give one vote.

In Switzerland the Bernese bank is a State establishment exclusively administered by State officials. That of Geneva is peculiar; its capital is contributed by the forty-eight communes (villages) of the canton, each holding shares in proportion to its importance; these communal shareholders elect delegates to district councils or colleges, which in their turn elect eight deputies to the board of directors; these eight with seven from the municipality of Geneva and three nominated by the State form the board. The bank of the canton of Vaud, which is a joint stock company, having a capital of £400,000, of which only £20,000 is contributed by the State which also guarantees a 4 per cent. dividend, has a council-general, a council or control of supervision, a council on board of directors. The council-general consists of a chairman, who is a member of the council of State, and is appointed by it; of ten directors who are also appointed by the council of State, and of ten appointed by the general assembly of shareholders; hence there are eleven Government members against ten from the society. The committee of control consists of the president and four other members appointed by the State from a list of twelve submitted by the council-general. The board of directors consists of the president and of four directors appointed by the State from a list of twelve submitted by the council-general; hence the administration is practically that of the State.

The above sufficiently deals with the joint stock banks of the modern type. The older institutions (Landschaften) are differently administered . That of Pomerania, the oldest but one in Germany has been described above, it is a combination of election, and Government appointment. The general assembly has the usual powers, but its decisions are subject to royal sanction obtained through the Home Department; this assembly seldom meets, its place being taken by a committee of elected delegates which audits the accounts, &c., and has general powers. The Province is divided into four districts (Bezirke), each having a local director, elected apparently by deputies from each ' Kreis ' (taluk or circle of villages), who with a syndic or cousel form the district council or college. The deputies of the four districts elect—subject to royal confirmation—the director of the central administration and his two co-adjutors who are under the supervision and control of the Home Department (Minister of the Interior) and a royal commissioner, who presides at and guides all central and district meetings and has a casting vote. The district administration disposes of all local work, but is controlled by the central directorate to whom it submits all proposals for loans. With the exception of those in Westphalia and Schleswig Holstein which are purely private, the Landschaften have a quasi-public position; their administrations savour of the official, and their officers are quasi-public and as such subject to the disciplinary law of 1852.

Perhaps the most striking feature of the administration of the Landschaften is the manner in which all members—not merely office-bearers but members, *i.e.*, borrowers, —are compelled to work almost gratuitously on behalf of the bank. Every member is bound

to take office under penalties which may extend to the calling in of his loan or the sale of his estate, and against such decision he has no appeal outside of the bank. Every member is bound to carry out any lawful order or duty imposed on him by the bank authorities, including such delicate tasks as the valuation of properties for loans, the management of sequestered estates, the duty of deputy, councillor, &c. For these duties the remuneration if any, is of the slightest description. The mutual or co-operative principle is in fact compulsorily worked to an astonishing degree, and under rigid penalties, and it is this provision which really enables the Landschaften to work at considerable distances from their centres without much cost or risk.

The Württemberg land bank, which is independent of Government, appoints, by its general assembly, a board of ten directors, which in turn elects its president, and a legal adviser. The general assembly also elects an auditor, and three supervisors. But the due examination of the banks' statutes and any proposals to change them are under the supervision of a Government commissioner who submits his report to Government.

The Credit Union of Saxony is a society of proprietors and is administered by a board of directors, a general assembly, and a staff of employés; a royal commissioner supervises and audit the books and accounts, and no mortgage is cancelled or debenture issued without his permission.

In Galicia (Austria) the bank was founded in 1841 by the Provinces under the imperial protection, but is a free association of proprietors like the German Landschaften. The administration is however under the authority of the Provincial Government; there is a president and vice-president nominated by the Diet and confirmed by the Emperor; two directors are then nominated by the Diet and two by the Diet and association jointly. The committee of control is a Provincial committee and supervises all operations, especially the emission of debentures; it can even suspend operations till the next general assembly. The statutes cannot be altered without the permission of the State. The State committee appoints district commissioners for local work. Finally the royal commissioners assist and supervise the general and local commissioners. The administration of the Hungarian Boden credit institution, which is a society of proprietors of a philanthropic foundation without any share capital or dividends and working only for the benefit of its member-borrowers, but under the supervision of Government, is as follows:—

"The institut is governed by a directorate and a committee of control, who are responsible to, and elected by, the founders' assembly and the general assembly. The directorate is composed of a president elected by the general assembly for three years out of three names submitted to it by the founders' assembly; and of at least three, and of at most five, other members chosen by the committee of control. Non-members of the institut are eligible to seats on the directorate. The committee of control consists of thirty-six members, eighteen of whom are chosen by the founders' assembly and eighteen by the general assembly. The founders' assembly is composed of the original founders or their successors. At this assembly each founder has one vote, which he can exercise personally or by proxy; but no founder can dispose of more than ten votes either in his own name or in those of his mandatories. Twenty founders, representing at least thirty votes, form a quorum. The general assembly ordinarily meets once a year, and the following are entitled to vote at the meetings:—

"1. Those who have received a loan through the institut amounting to at least 50,000 florins (about 4,200*l.*). These members each have one vote, which they may exercise personally or by proxy.

"2. Those members who have received loans of less than 50,000 florins in value select their delegates to the general assembly, in each district one delegate being chosen to represent an aggregate value of loans of 400,000 florins (about 34,000*l.*).

"The duties and functions of these several bodies are the following:—

"The directorate has the general supervision over the affairs of the institut, and is the executive body; but it works under the watchful eye of the committee of control.

"This latter body is intrusted with the duty of securing the strict observance of the statutes, and of preventing any act which might endanger the credit and financial stability of the intitut. At least three of its members must attend every meeting of the directorate at which the grant of loans is under discussion; and no loan can be accorded unless a majority of the delegates from the committee of control consent thereto.

"The committee of control has further the right to inspect the books and accounts of the institut; and it is bound to examine the 'caisse' at least once a quarter. It has also to make an annual report to the general assembly on the finances of the institut, and must carefully watch over the proper proportion being preserved between the amount of bonds issued and the value of the mortgaged property held in security. It will be seen that the powers of the control committee are extensive, and as it elects the board of directors, it may practically be considered to be the ruling power in the association. On the other hand, as its members are chosen from the founders and from the general body of members, it is responsible to its electors, and its action can be scrutinized and checked at the general meetings.

"The founders' assembly, which is called together by the directorate, is empowered to examine every proposal which would lead to a modification of the statutes, and to decide whether such proposal should or should not be submitted to the general assembly. The general assembly receives and discusses the annual reports of the directorate and of the committee of control, and examines and approves the accounts which are submitted

" to it. To this body, as was stated above, are submitted all proposals for amending the " statutes: but no measure in this direction is finally complete until it has received the " sanction of the Hungarian Government.

" Local committees, composed of members of the institut are established in the " Provinces to watch over the interests of the institut and to act on local agencies.

" A Government commissary is appointed to superintend the observance of the sta- " tutes, though his participation in no wise relieves the authorities of the institut from " their legal responsibility. This functionary countersigns the report on the annual " accounts, and he has the right to inspect the books and accounts whenever he desires, " and to make any inquiries or investigations which he may think fit. He would natu- " rally report to Government any breach of the statutes, and action could be taken on his " report. The institut is, with the exception of the Austro-Hungarian banak and the " institut which lends money to the smaller land-owners, alone among mortgage loan " associations in being under such direct Government control; but, on the other hand, as " will be shown hereafter, it is in enjoyment of special and exceptional privileges from " the Government " (*Commercial 9 of* 1891).

In Switzerland the cantonal mortgage bank of Berne has a remarkable system of administration. This is a State bank administered by the Financial Department and the executive council, through a nominated directorate and council of supervision, a manager, &c. But the real work is done by an ingenious dovetailing of the communal (village) councils into the bank. Every loan application must be presented by a candidate to the communal council, who are bound to verify all his statements, give their own valuation, opinion, and recommendation, if approved, and send the papers on to the Registrar of Mortgages, who further verifies the allegations from his land registers. The communes are responsible for any over-valuation, and for any loss which can be traced to any negligence or mis-statement on their part, and they are further bound to watch the mortgaged property and to report any alienation or deterioration which may affect the bank's security. It appears also that the annuity instalments are paid either through the communal tax gatherers or other revenue officers. Here the real work and responsibility of the administration are thrown on the village corporations who are unpaid and yet responsible agents; they take all the risk, but none of the profits, it being held, presumably, that their profits arise from the benefits which every resident of the commune may enjoy in obtaining cheap credit. The safety of the Central bank is secured by the fact that the local agents (communes) are liable for all loss. This ingenious arrangement is unique, though possible wherever the commune is, as in Europe, a corporate body with corporate property, with common borrowing and other powers, and corporate duties and rights. The Indian village, though in some parts more of a brotherhood, is not a *municipium* like the European commune or even the Russian Mir: in this Presidency it is little more than an aggregation of individuals with common customs.

It is the general rule in Europe that all officials of the higher classes, governors, directors, supervisors, &c., shall give security, usually in the form of shares of the company or society, which are inalienable during their term of office, are marked by a special stamp in evidence of this, and are deposited among the securities of the company.

It is also not uncommon for the general assembly to consist not of all members, but of the chief holders of shares, *e.g.*, the general assembly of the Crédit Foncier is composed of the 200 largest shareholders. The general meeting in 1891 consisted of 110 shareholders, representing 41,766 shares with proxies for 29 representing 12,077 shares; there were at that time 21,642 shareholders.

The holders of a bank's debentures frequently have the right to join an assembly with power to watch over their special interests.

Audit and Control.—In Europe the place of auditors is filled by special committees of control and supervision (engere Ausschuss, Censeurs, Sindaci, &c.), the appointment and duties of which are settled by the Codes of Commerce or by special laws. But in many the Government commissioner whose position and duties will be described under 'State intervention,' seems to exercise many of the functions of an auditor in his inspection, *per se aut per alium*, of the accounts and securities and his investigation of the operations of the society. In Europe the law of societies invariably provides for this standing committee of supervision, which will be found more particularly described under 'Popular banks' and under 'Law.' Their position is above that of the directors or committee of administration; the latter are the executive and represent the society, but the former are controllers and the guardians of the society's interests, and are often given the power of suspending directors. The auditors and controllers (censeurs) of the Crédit Foncier of France are a standing committee of three, elected for three years by the general assembly and are eligible for re-election. Their duties are to see that the statutes are strictly adhered to—a duty which includes the proper deposition and investment of the funds according to the statutes; they must be consulted by the board of directors; they watch over the issue of debentures, and especially see that the equilibrium between debentures and loans is strictly observed; they examine the accounts, balances and position of the society, and report annually to the general assembly upon the directors' report and balance sheet; all accounts and books are open to them, and they must verify the cash balance and the bill case at intervals; they can also call on the directors to summon an extraordiary general assembly. Their functions are borrowed from the statutes of the bank of France. They are obliged to hold at least 100 shares in the society; these are inalienable and are deposited in the society's safe.

In the German banks which are followed by the Austrian and Hungarian, the committee of control and supervision fills a most important role. In the Landschaften the select committee (engere Ausschuss) is the chief supervising body, which must examine all accounts and approve of the annual budget and report. The general committee (directorate) is of course responsible, as usual, for sudden inspections and audits, and, in their respective branches, the district committees and especially their chairman. In the Hungarian Boden credit institution (a society of proprietors), the committee is a large body with extensive powers, and in its duties of audit, it has to inspect the books and accounts, and to check the cash balance at least once a quarter; it sees to the maintenance of the equilibrium between the grant of loans and issue of debentures, it watches over the financial stability of the society and reports annually on its finances, it is independent of the board of directors who form the executive, and is responsible only to the general and founders' assemblies. In the Hungarian mortgage bank—purely joint stock—the coucil of control, of three to six members, is elected by the general assembly and is independent of the executive board of directors; its duties are similar to those of the Boden credit institutions committee, and it is particularly required to examine the mode in which mortgage loans have been granted.

In the Mortgage Bank of Spain the three auditors for examination of the books, accounts, and operations are elected by the general assembly and not by the directors.

In Italy the rule for each privileged land bank is for the committee of supervision to consist of a delegate of the society, of a delegate from the Provincial administration, of a delegate from the communal and municipal administration, of a delegate from the chamber of commerce and of two auditors, nominated by the board of directors. Their duties are those described above for similar committees, but in addition to this committee, a Government committee consisting of delegates from the prefecture, and from the Government Audit office examine, every two months, all the operations and accounts of the society.

There does not in Europe seem to be any provision, as in England, for purely professional audit *ab extra* of the operations of land banks.

State Intervention.—The most noticeable feature in the organization of these land banks is the pervading presence of the State, in all degrees, from the complete direction and control found in the State banks, to the general supervision exercised over private joint stock companies; the State in no case leaves this form of bank to its own devices, but watches its proceedings with jealous care, and, usually by special law, provides most stringent rules and heavy penalties for malfeasance or even neglect of regulations. It is true that Continental Europe is accustomed to a general regime very different from that of England and India where the principle of non-intervention is generally held to be the true gospel in political economy, but in the matter of these land banks the intervention of the State is so marked as to show that there are particular reasons for it, some perhaps historical in the custom which has continued from last century when Frederick the Great erected the first land credit societies by his simple fiat, some, certainly, in the nature of the operations to be undertaken and the class of people to be dealt with. It is in fact, held by some European economists, German specially, that the State should undertake banking as it does the Post office, Railways, the Currency, &c. Others, on the contrary, object to State intervention, as savouring of State socialism, as tending to cramp, or even stifle the business energies and independent action of a nation, as developing still further that dominent bureaucratic action which is so all-pervading and powerful in Europe, as favouring—in the matter of credit— the class of borrowers at the expense of the general tax-payer. Others however believe that, while not bound to direct action, there are conditions which call for State interference in favour of an industry—agriculture—the stability of which is so absolutely necessary to the welfare of a nation, and they would admit or even require State intervention by way of encouragement and promotion, subvention and guarantee, control and supervision, and privileged procedure. These last opinions are almost universal in Europe where the conditions and history of society are so utterly different from those of England, and it will be seen that State intervention in all the last-mentioned forms is absolutely universal, not indeed in all forms for all banks, but for all land banks in one form or other.

Government control and supervision in varying degrees are then universal in Europe in the matter of land banks; it is recognized whether in France, Germany, Austria or Italy, that land banks must be controlled or at least supervised by Government authorities; the absolute need of agriculture for capital on moderate terms; the impossibility and danger under existing conditions of supplying it by private lenders; the inability of the pepole generally, under these conditions, to start and successfully work a land bank without State assistance and guidance; the evil of allowing newly-started banks to risk their credit in loose or misdirected operations with the consequent danger of failure and irretrievable damage to credit in frightening capital from associated and systematic effort; the danger that, without such control, the landowner might find that he had merely exchanged the private usurer for a mechanical screw-vice provided with powers of coercion specially supplied, which the usurer lacked, seem to be among the reasons which have determined all European Governments to interfere more or less completely in the guidance and supervision of the land banks. The conditions which existed at the starting of the banks determined this action ; the people were either nobles whose position round the throne, and in the then economy of their country, required the support of legally secured credit, or they

were poor and ignorant peasants whose very life blood was being drained by private usury; nobles and peasants alike were in the hands of the money-lenders, and were incapable by their sole efforts of extricating themselves or of managing credit associations without supervision. Again, in late years it was necessary, in the still unimproved condition of the petty proprietary who form the great mass of landholders, to prevent associations of capitalists from exploiting the country, as the individual money-lenders had done before them; *per contra* owing to the extreme difficulty of dealing successfully with ignorant, suspicious, heavily indebted masses of small holders, Government connection with the banks was needed to give that official sanction and support which in much governed Europe is the *sine quâ non* of rural dealing. Hence the great difference between the history of continental land banking and the banking of England and Scotland, and it may well be that in this, which is found a necessity in Europe—and strange to say—as will be hereafter seeen in the most independent of countries, the United States of America, there is a lesson for Indian rural land banking. Free banking suits English and Scotch conditions and the peculiar history and development of society and of economic history in those countries, but is not necessarily suitable to other conditions as in India; nay, it may be a grave error.

State intervention then is of several degrees and kinds, viz., (*a*) in foundation, (*b*) in initiation and promotion, (*c*) in subvention, (*d*) in guarantee, (*e*) in control, (*f*) in supervision, (*g*) in the grant of privileges.

Foundation.—The State has not often, except in Russia and for special purposes in Germany, directly founded banks; it has rather contented itself with ordering or assisting —by legislation or otherwise—their foundation by societies. The only great States which have attempted direct foundation are Russia and Germany, all others are very small States, such as Hanover, Nassan, Hesse Cassel, and the several cantons of Switzerland. Belgium made proposals based, it seems, on the Galician type of bank and partly passed a law in 1851, but the law has never been completed or carried into effect. Little is known for the purpose of this study of the Russian banks, which are described *supra s.v.* 'Russia.' Apart from those of the small German States, the only German State banks are the rent charge banks of Prussia, established, as a political necessity, to assist the peasants to redeem feudal charges, and the Provincial Landeskulturrentenbanken established to assist works of improvement such as drainage. There are however the Provincial Hülfskassen (help banks) for aiding the establishment of further institutions, the payment of municipal debts, the improvement of unproductive lands, and the establishment of industrial works. These, established and endowed with a fixed subvention by the State, were in 1875 transferred to the Provincial administrations. There are also numerous communal establishments on a small scale.

With the above exceptions there is no State bank of any importance or in a State of any size.

But that which can be done in a State, Province or Canton, which, though often far less in area and population than a Madras district or even taluk, may have a complete Government, with ministers, departments, and all the paraphernalia of a modern and highly bureaucratic Government, cannot necessarily be effected in a State of a couple of hundred thousand square miles with 30 or 40 millions of people, and accordingly, except in Russia, there is nowhere to be found any State bank lending direct to proprietors, established by the Government of a great State. Moreover the Russian peasants' bank lends rather to communes and districts than to individuals, and its operations, so far as is known, are of questionable commercial stability; it lends up to 90 per cent. of the estimated value of the property, a proportion nowhere else admitted or even approached, and the real value of this material guarantee is doubtful. The fact remains, however, that great and pressing as are the needs of the millions of peasant proprietors in France, Germany, Austria, Hungary Italy and Belgium, not a single State land bank exists for them, except a few isolated banks in petty States or Provinces; some of these are successful as in Hanover, Hesse Cassel and Berne; others unsuccessful.

Initiative and Promotion.—Broadly speaking all the institutions of the older class owe their establishment to State impulse. The Landschaften were due to the direct intervention, authority, and aid of Frederick the Great in 1770, who simply ordered their formation and the adherence of all "Noble" proprietors in each Province; in all Germany prior to 1860, there were not four land banks founded by private initiative. Apart altogether from the annuity banks created by the law of 1850 to redeem the commuted feudal &c., charges, the Prussian Government from 1850 onwards, ceased not for more than twenty years to study the subject of land banks; bills were presented to the legislature, discussed and dropped; the Minister of Agriculture summoned conferences of experts; the economic council was moved to consider and report upon the subject; enquiries, congresses, committees and bills followed without avail; the economic council was again moved by Government to give its advice, but the council broke up in despair at the diversity of opinions. finally a special commission was appointed (1870), which gave an opinion in favour of associations of proprietors, and advocated concessions to such. No legislation however followed, and though no new banks were directly assisted by Government, yet the great development both of Landschaften and mortgage banks, between 1860 and 1880, must largely have been due to the State provocation of incessant discussion of the subject. The Crédit Foncier of France is the result of the action of the French Government in 1852, not directly, but by the means of the enquiries set on foot by its several ministers and by the law which was the outcome of those enquiries, which favoured and practically caused the

establishment of the society by the grant of various privileges; while in no sense an imitation of the German Landschaften it was based upon an examination and knowledge of their methods, which were combined or adapted to suit French habits and ideas. In Italy Government drafted laws in 1853 and 1862 to favour a similar foundation with the avowed object of supplying agriculture with capital; with this view they appointed a commission to study the whole question and to examine projects and business men on the subject. They subsequently arranged a convention for a society with certain privileges of subvention, monopoly, &c., which however fell through in parliamentary discussion. In 1886 this specific business was granted as a monopoly to eight banks already in existence, and this law was followed by others in 1884, 1885 and 1890 all intended to produce at proper land credit system. In Austria the right was granted in 1857 to the National bank, but the first land bank was established in Galicia in 1841 by the Provincial Government and protected by the Imperial Government. Many more have since been started with or without the Government aid, but the initiative was with Government. In Switzerland the various cantons have directly established several such banks and have assisted others as in Vaud. The countries of Europe at least prior to 1852, in all and even now in Italy and others, have depended upon Government for their initiative in systematic credit designed to oust the usurious non-systems which till then were the only source of credit and were " draining the life blood " of the landed property.

Subvention.—State aid has, however, occasionally assumed the form of financial aid. The four or five Old Landschaften received considerable sums, partly to supply the first instalment of funds, partly as a reserve against contingencies, but it is unquestionable that the subvention was due to the autocratic nature of the foundation; when a Frederick the Great not merely orders the foundation of a land bank but, by the same arbitrary, if wise fiat, orders that not merely all members of the bank, but every noble owning lands within the Province shall be wholly, if ultimately, responsible for all the bank's operations, a State subvention to minimize the risk is the logical sequence of the fiat. In Russia the Czar Alexander supplied, in 1818, the funds necessary for starting the credit bank. In Galicia the Austrian Government granted funds, as a reserve only, to the association, which was founded not indeed by Government but under State auspices. In Roumania the Government granted a subvention to each of the special land credit societies which are formed under their auspices and control. The Crédit Foncier of France, a joint stock company, obtained a subvention from the State of £400,000 in addition to an understanding that the State and departments (Districts) would purchase a quantity of the society's debentures in order both to provide the first funds and above all to give the public confidence in its stability. Similarly in Sweden, the royal mortgage bank, founded in 1861 under State patronage, has obtained an endowment of £444,000 paid in Government 5 per cent. paper; the object of this bank is to furnish Provincial mortgage associations with funds for their operations, for which it receives $3\frac{1}{4}$ per cent. But the State has also granted as a guarantee capital, a sum of £320,000 in bonds not repayable and bearing interest; these bonds cannot be negotiated except in case of urgent necessity as provided by the statutes. In Switzerland subventions are granted by certain of the cantons to joint stock land banks, *e.g.*, Vaud in which the Government holds 1,000 shares and guarantees 4 per cent. interest; so also Geneva and Fribourg, the State grant in the latter case being one-eighth of the share capital. In Hungary the Boden credit institution, founded in 1863 as a mutual credit association, has received £41,666 from Government as a contribution to its reserve fund; and the loan institution for small proprietors founded in 1879 received a similar grant.

The subvention is useful chiefly as an evidence of the belief by Government in the credit of the bank, of the connection of Government with it, of its interest in its success and of its approval of its operations, as an advertisement to the public that the Government desires the success of the bank and believes in it and its usefulness; it is the Government stamp on the bank's currency. It is in fact seldom drawn upon; the money lies as a reserve, bearing interest which is again credited to the reserve; Government lose nothing but the interest and in several cases the principal has been subsequently repaid; in some a small interest below market rates is paid by the bank; in one Swiss bank at least, a high interest (above 5 per cent.) is obtained by the State as a dividend.

Guarantee.—Another form, whether of substantial funds or a grant-in-aid of reputation, is found in a form of guarantee. In the State banks Government of course takes all risks as well as all profit and therefore guarantees the public which accepts its bonds. The Swiss banks of Vaud and Fribourg both of which are joint stock companies, enjoy as to their shares, a guarantee by the cantonal Government of 4 per cent. interest, the State claiming a large share of the management through its appointees. In Germany there is no Government guarantee to the present land banks (not being State), for it is no longer needed, but the rent charge banks, formed to assist the peasant in paying off his commuted rent charges and services, are guaranteed by Government on all their obligations.

Control and Supervision.—This is usually considerable. In the land association of Pomerania, which may be taken as a type of the Landschaften, the control of the society is with the Home Department, and a Royal commissioner supervises all operations, and has a supervising and controlling power almost unlimited.

The directors and councillors are elected by the deputies representing the associations, but the appointments are subject to Royal approbation. The Royal commissioner opens the meetings, directs and closes the discussions, and has a casting vote; even the general

meetings are subject to his guidance, and their discussions, at least as regards any change in the statutes, are sent to the minister, who submits them for Royal sanction; the functionaries of these Landschaften are considered as quasi-public, and are subject to the Disciplinary Act (1852) which regulates public servants. In Austria, the Provincial land bank of Galicia is subject to the Provincial Government, the directors being appointed by the Provincial assembly (Diet) and confirmed by the Emperor. A State committee supervises all operations, and Royal commissioners are added as a double security. This bank, however, was founded by the Provincial Government, though it is an association of proprietors and not a State bank. In Württemberg the land credit association is independent of the State, which however appoints a Royal commissioner to watch over the due execution of the society's statutes.

In the new class of joint stock land banks, typified by the Crédit Foncier of France, the control of Government is also met with. The Crédit Foncier itself was, at its foundation in 1852, placed under the control of three State Departments, but this proved cumbrous and inefficient, so that in 1854 the present plan of a governor and sub-governor appointed by and responsible to the State was adopted; the governor has very large powers of execution and of veto; all appointments are made and cancelled by him; nothing can really be done without or against his authority, so that the Crédit Foncier is practically governed, though indirectly, by the State. Moreover three of the directors must be chosen from the Government finance officers. The State subvention is no sufficient reason for this intervention, which is out of all proportion to the States' financial interest in the matter; an interest of £440,000 in a society with a capital of more than £7,000,000 and existing operations of £126,000,000 is wholly insufficient to account for the controlling part taken by Government; it is the necessity for assuring the safe and proper working of a great and much needed land bank that has caused the intervention.

Similarly in the Crédit Foncier of Austria, a joint stock society, the governor is appointed by the Emperor, and the directors by the minister under whose supervision the society is placed: there is moreover a Royal commissioner, who controls the issue of and signs the debenture bonds, maintains strict execution of the statutes, and has a power of veto over every resolution, even of the general assembly, which appears to him to violate those statutes. In Austria, in fact, all banks and joint stock companies of every description are subject to State supervision; their rules must be approved by, and their balance sheets submitted to, officials appointed to examine them. In Hungary the Boden credit institution, the Austro-Hungarian bank, and the special institution for credit to small proprietors, are largely controlled by a Government commissioner who can inspect the books and accounts whenever he pleases, and make any enquiry or investigation that he thinks fit; he is obliged also to countersign the report in token of the correctness of the accounts, but even this does not relieve the bank authorities from responsibility. Other institutions are not so controlled.

In Germany the Central Boden Credit Anstalt of Prussia, a joint stock company independent of Government, appoints its own directors, &c., but the election is subject to State approval; there is also a Government commissioner who supervises and controls operations, and countersigns all debentures; his salary is fixed by Government and paid by the bank. In the joint stock mortgage bank of Pfalz (Palatinate) established only in 1882, Government exercises control through a commissioner placed under the Minister for Agriculture, Commerce, &c. This commissioner is bound to see to the observance of the Articles and Rules of business, especially as regards the issue of debentures, their equilibrium with the mortgage loans and the security of the bank advances: he has the right of presiding at all the meetings of the general assembly, directorate and committee of supervision, and can summon these bodies; he can always inspect the cash, books, accounts and other papers of the bank at its office. All the costs of State supervision are borne by the bank and any alterations in its Articles require the confirmation of Government.

In the case of this class of mortgage banks in general the powers of general supervision exercised by the State are summarized as follows in the 'Dictionary of German administration.' "The control of Government as regards these banks extends generally only so far "as their statutes provide for the co-operation of Government in the matter of guidance "and management, or when the issue of mortgage debentures (Pfandbriefe) depends upon "the sanction of Government. In the banks of Middle and South Germany there are "specially nominated State commissioners who supervise the administration in general, and "who can veto the resolutions of the society, if they are contrary to law or their statutes; "they have also to examine into the correspondence of the debentures and mortgages. In "Prussia, where the business of the mortgage banks * is chiefly limited to urban property, "there is a special State commissioner for the Central Boden Crédit Joint Stock company "of Prussia, the others are supervised by Government only if they issue debentures "(Pfandbriefe) or do insurance business. Supervision is exercised over them by the "district officer (Regierungs Präsident), and in the ultimate resort, by the Minister of "Agriculture. The standard regulations of 6th July 1863 are authoritative in the matter "of applications to start such banks; these regulations prescribe the maximum limit of "loans, the proportion between the amount of debentures and of the share capital, the "minimum rate of amortization and rules to prevent the oppression of debtors."

In Italy the societies or banks permitted, with certain privleges, to deal in land mortgages, after the fashion of the Crédit Foncier of France, are placed under the

* Not he Landschaften, but the Hypotheken Banken.

supervision of the Department of Agriculture and Commerce; every two months their accounts and operations are inspected and verified by official inspectors, the chief of whom is present at all meeetings of the committee of cotrol, has a large power of veto, checks the issue of debentures, watches over the drawing of lots, &c. The several societies pay the salaries of the various inspecting officials. Every week moreover each such bank must publish in the official gazette a statement of its operations, and every year its balance sheet. All resolutions of the board of directors must be sent to the minister within eight days of passing, and the minister may within ten days annul such resolutions as he deems contrary to law or to the bank's regulations. Every six months, a complete statement of all loans with details regarding each must be drawn up and sent to the minister, in order that the amount of bonds in circulation may be registered. In fact a complete control is exercised over the banks, especially as regards their loans and finances.

In Roumania the Crédit Foncier is controlled by two Government commissioners, who watch all operations, examine the books and cash, are present at meetings, countersign the debentures, and report quarterly to Government.

In Sweden the banks not only arrange for audit, but the Government of the Province appoints a commissioner to examine all the securities, accounts and transactions at any time whatever and to assist in drawing up the quarterly balance sheets; the Finance minister can also order an investigation at any time, or can require explanations. Hence there is a very complete Government audit and control.

Enough has now been said to show the nature of Government control and supervision, and its universality. The general object is to ensure the exact observance of the law and of the statutes of the society, to provide additional State audit, to prevent any malversation of funds, to make the security of the bank and of those interested in it as complete and lasting as is possible, and to prevent the banks from being so worked as to oppress rather than assist their debtors.

There are then the following methods of Government control and supervision: (1) complete management direct by State officers as in the case of State banks; (2) management by a governor with assistants and financial colleagues, all of whom are experts appointed by Government and with such large powers that the management is practically vested in them, and therefore indirectly in Government; (3) management by the societies, with the supervision of a special Government expert (commissioner) who is charged with watching all operations, with making inspections and with countersigning all bonds of the society so that the debentures in no case may exceed the amount of the mortgage loans, and who has large powers of control and veto; occasionally other Government officers have seats in the direction, but no preponderating influence or power; (4) management by the societies, under the general supervision of a Government minister (finance, or agriculture and commerce), to whom various returns are periodically sent for examination, and who has various powers of veto and guidance; to which is added a periodical audit by Government inspectors who also assist at meetings and in financial supervision. Publication of reports, balance sheets, lists of drawings, &c., is required generally in the Government Gazette, and in at least in one newspaper at the headquarters of the society.

Monopoly and Privilege of Procedure and Finance.—It is recognized in Europe that in order to give the new institutions a better chance of success, to encourage what in each country is an experiment and a new departure, and to avoid the complications and public mistrust which would follow failure, certain privileges must be granted them. Unrestrained and jealous competition at first, among institutions tentatively started, and still feeling their way, would certainly resut in departure from rules, in the gradual abandonment of the original aims, viz., the supply of cheap credit to land, the redemption of heavy mortgage debts, and the development of agriculture and in divergence to ordinary banking operations many of them extremely risky in up-country districts; whence probably many liquidations, much public distrust, failure to realize the aims of the promoters, and the relegation of landholders and agriculture to exploitation by usury. Hence it has been generally judged right to give the societies by a special law a monopoly of operation over the certain area, and for a given period; not of course a monopoly of lending operations which are free to all whether societies or individuals, but a monopoly of lending under the special law and with the special privileges conferred by it, *e.g.*, a period of twenty-five years was granted to the Crédit Foncier of France, which expired in 1877 and has not been renewed. The area of the monopoly differs; some societies have the monopoly over a whole country as in France, it being argued that the bonds of a great society will command far greater confidence and therefore a better market than those of small Provincial societies. On the other hand, it is argued that the German banks are all Local, Provincial, &c., and owe their success precisely to that fact; their monopoly is local, but so in their knowledge. It is in fact the old dispute as to the comparative utility of a Central bank with branches and agencies, or local institutions autonomous, with large local knowledge and, possibly, linked in groups for the better security of their paper and finances.

The question then arises what are the privileges granted by the laws which render the monopoly worth having. These have already been mentioned, *s.v.*, Privileges; briefly they are *fiscal*, viz., privileges regarding taxation and stamps; *financial*, viz., the grant of State funds, the issue of debentures especially privileged as regards stamp duties, and free as regards bonds to bearer of all transfer charges; *legal*, in the privileged rules regarding the security of the society's loans and their recovery. The fiscal and financial privileges are elsewhere discussed; those privilges relating to " loans " will be discussed immediately.

**Loans.*—The *raison d'etre* of the Crédit Foncier of France is the grant of cheap loans. To be cheap, the society must have cheap capital; this is obtained by its privileged issue of debenture. But these debentures are secured in the main, by the loans granted by the society on mortgages; hence the scurity of the whole society and the acceptance of its debentures depend upon the nature of the mortgages accepted, and the certainty with which the loans can be recovered.

The great object then of the society is the issue of mortgage loans of very long term (thirty to seventy-five years) repayable by annuities which include interest, charges, and a sinking fund; these loans are financed by the issue of debentures in exact representation of their amount. At first all other operations were forbidden except that, with Government sanction, any other system might be adopted to facilitate loans on immovables and the liberation of debtors, but gradually others were admitted, viz., short-term loans with or without amortization, special loans for long periods for drainage purposes; loans without mortgage to departments (districts), communes, associations and public establishments; the receipt of deposits and grant of loans fro msuch deposits on good securities. The Crédit Foncier communal loans form above one-third of all loans, but these, though of the highest importance, are foreign to the scope of the present study. So also is the question of loans on securities, an operation of ordinary banking; drainage loans are elsewhere discussed. The other classes of loans will now be dealt with.

Loans on long term with amortization.—The loans are made only in money; in the German and other banks they are frequently made in the bank's bonds which the borrower must negotiate for himself. There is for loans neither minimum nor maximum now prescribed by the statutes; the original rule of £12 minimum and £40,000 maximum has been omitted. In the rest of Europe, there is usually a limit either way; £83 is a common minimum with £25 for the special Hungarian society for small landholders; in Italy £40 is the minimum; a maximum is fixed according to circumstances. In the Crédit Foncier loans below £200 are 23 per cent. of the total number—not of the total value—and average £130; those from £200 to £400 form 19 per cent.; those from £400 to £2,000 are 39 per cent.; and those above £2,000 are 19 per cent. of the whole.

The duration of these loans is from ten to seventy-five years; the favourite period is that of sixty to seventy-five years in which are found just above half of all the loans granted, the proportion being slightly greater of late years; the next is from fifty to fifty-nine years which absorbs slightly over one-fourth; all other periods with ten year intervals have very small numbers not exceeding one-twenty-fifth except that for twenty-one to thirty years where the number is above one-eighth. Here is the leading principle of the modern land bank.'

Interest.—This, of course, is regulated by the circumstances of each country; the Crédit Foncier of France charges (1891) only 4½ per cent. including all commissions, but not the amortization charge. The German Landschaften are cheaper.

Charges.—These are of several kinds: (1) charges of administration usually recouped by an addition to the annuity; (2) charges of valuation; (3) sundry charges.

Charges of administration.—In the German societies these are various; in that of Württemberg there are five classes of charge payable by the borrower, amounting to between 1 and 2 per cent. per annum, which, however, as the society is one of borrowers, all go to the profit of the borrowers themselves, and are demanded as a reserve and guarantee rather than to increase profits. In Italy 0.45 per cent. is a usual charge for expenses, and similarly elsewhere. In France, the Crédit Foncier is entitled to demand up to 0.6 per cent. under this head, but this item no longer appears overtly in the annuity; it is provided for in the difference between the borrowing and lending rates of interest. The reason is that under the amortization principle, the amount of debt gradually decreases, so that a fixed percentage for expenses gradually becomes a heavy charge on the amount remaining due; *e.g.*, 0,6 at the beginning of the loan becomes a charge of 1.20 when half has been paid and of 2.40 after the payment of three-fourths. Hence the charge has now been suppressed, the interest including it, so that as the interest diminishes with the amount remaining due the commission also diminishes.

Charges of Valuation.—These require no remark as they must vary in every case, but they are no inconsiderable addition to the cost of a loan, and, as a matter of fact, are among the chief reasons why Central banks cannot touch very small business; the necessary charges of inspection are out of all proportion to the small loan required by the owner of 10 or 15 acres. In France the regular charge is 20 francs up to 10,000, 30 from 10 to 30,000 and above 30,000 two charges each of 1 franc per 1,000 for valuation and examination of title-deeds. Moreover whenever a new valuation or inspection is needed on account of division of property any modification in the contract, or in order to verify the advance made in improvements, &c., a separate charge is made for the visit of an inspector. In the National mortgage bank of Italy the minimum valuation charge is £4, a charge which sufficiently shows the class of business sought.

Sundry Charges.—These include the expenses of registration, stamps, notary's fee, &c., and are said to amount to 3 per cent. on the loan. But the notary's fees are known to be very considerable and this amount seems low. In Italy the charges of registration, stamps and taxes are borne by the society or bank in consideration of 0.15 per cent. added to the annuity. In Belgium the preliminary charges, all told, are said to be about 3 per cent. on

* In this section the Crédit Foncier of France will generally be referred to; its system is modern and complete, and full details not only of its operations, but of its principles, are available in modern treatises: when German or other banks are referred to, the fact will be specially mentioned.

the capital borrowed; in the Hungarian Boden credit institute, the charges are about 2 per cent. on the loan amount.

Privileges for the security of Loans.—One of the chief obstacles to the introduction into France of Real credit institutions was the state of the civil law—based upon the Roman law—which did not give adequate security for loans, nor speedy and cheap methods of recovery. Hence certain privileges were necessary in the special law in these two matters, of which the latter will be dealt with under ' Recovery of loans. '

The privileges as to security are to free the society from unknown and obscure claims and to ensure that the loan shall retain its entire validity till repayment. These are contained in the provisions for liberating (purge) the property pledged. By the ordinary civil law the " purge " is a means granted to a holder to free the property from any charges or liens held over it by previous possessors, or by interested persons, whether wives or other relatives, creditors or the like; it was also the means for bringing to light unknown, unregistered or secret mortgages or charges that burdened the property unknown to the intending purchaser. But it only applied in cases of complete alienation, and not to cases of mortgage; hence the special law authorizing the societies for land loans, extended this " purge " to mortgages accepted by the society. Moreover it provided methods shorter, easier, and cheaper than those of the ordinary law, while they more completely safe-guarded the interests of minors and others. The ordinary " purge " cost at least from £2 to £6 and required a minimum of three or four months' time even if there was no opposition or Court delay; the new form, as finally adopted, requires nothing but two notices giving full details, and from three to six weeks of time; when the rights of persons are known, the notices are sent to them or to their guardians; when unknown, they are published in certain papers and gazettes and in certain public offices, such as that of the Government pleader of the local Court. Failing the registration of any such rights or charges within a certain period, all claims are relegated to a lower rank as against that of the society alone, which thereafter takes position as first charge on the property, subject only to the dues of State.

Owing to the action of the law of registration subsequently passed, by which all charges, transfers, &c., must be registered in order to be valid, the " purge " is now only necessary for ascertaining and providing against claims which exist independently of documentary and contract creation, viz., those of wives, co-sharers, other relatives, minors, persons incapable by law of contracting and " the privileges " of third parties, such as those of the State, of builders of the house mortgaged, of the lender of the money which bought the house or land, of the labourers who have cultivated the land, or of the merchant who has supplied the seed for sowing it (hypothéques legales et occultes). Without the possibility of ascertaining and settling these claims, the Crédit Foncier would be frequently confronted by claimant who had no part in the mortgage contract, and who were not bound by it, and yet had indefeasible and prior claims. The operations of the "purge" are sufficiently set out for the purposes of this study in another appendix, which gives the law affecting the Crédit Foncier. The matter is of interest, since one of the chief difficulties in Indian land transactions is the right of third parties especially co-sharers. The " purge " may prove a useful method in India for this particular purpose.

It is usual to execute a " conditional mortgage deed " before making the loan final; in this is set out all the conditions of the loan, the consent of the wife, &c., and this is at once registered at the Mortgage Registrar's office. The society then proceeds, if necessary, to the " purge "; if not necessary, a certificate is obtained from the registrar that there are, or are not, other charges on the property and the final deed is then, if deemed right, entered into, and the money paid over. The final deed is registered, but till it is registered the conditional deed is in force, the object of this conditional deed being to maintain the society's position as first mortgagee until the final deed is registered, since it is conceivable that otherwise a borrower might collusively obtain and register a second mortgage from a third party before the society's deed was registered, and thus place the society in an insecure position. This conditional deed seems to be unnecessary in India under the operation of section 47 of the Registration Act.

Amortization.—The ordinary repayment of long-term loans is by amortization, *i.e.*, by a sinking fund consisting of annual payments included in the fixed annuity, capitalized at compound interest and deducted each year from the principal, so that, while the annuity remains fixed, the portion thereof due to interest gradually decreases and that allotted to the sinking fund gradually increases. As elsewhere explained, this system of long-term loans amortized by annuities is in limitation of the German Landschaften, and was adopted into the Crédit Foncier of France, at its establishment in 1852.

This is the leading principle of these loans and is absolutely necessary for all loans taken for the purchase or improvement of land, for, as noted long ago by Adam Smith, capital sunk in land improvement is never again disengaged from it, but can only provide an additional annual income of greater or less amount; it is then only by setting apart annually a portion of this income that capital so sunk can ever be replaced. It is herein that one great distinction lies between private lenders and societies; the former cannot possibly receive back their loans by petty payments spread over many years, and it is therefore not merely expensive but essentially wrong, that money for improvements or purchase should be borrowed from them; such borrowing can only lead to further debt as soon as the term of the mortgage, usually a very few years, has expired, when the money has either to be repaid

in full or a prolongation obtained, usually on still more onerous terms. It is not necessarily a question of usury or extortion; a capitalist cannot usually receive his money otherwise than *en bloc* and at short terms, or at best, in a few large instalments; a ryot cannot borrow on such terms for land improvements unless the loan is only a trifle compared with the value of his estate. The clearness with which this has been perceived by the founders of the Crédit Foncier of France, is shown by two provisions of their statutes: (1) that the amount of the loan should not exceed half of the valuation, strictly carried out; (2) that the amortization should not ordinarily exceed at the beginning 2 per cent. of the loan. The first provision not only secures the society, but was expressly intended to prevent a land-owner from borrowing too largely; a borrower often deceives himself as to the ease with which he can repay, and counts on profits which may never be realized. But this provision and the second are also intended to keep the annuity well within the probable proceeds of the property charged. The reports show that borrowers confirm the society's views; one-half of all the loans granted by the society bear annuities in which the amortization is so small as to be hardly distinguishable; viz., the loans from sixty to seventy-five years (see *supra* ' Duration ') *e.g.*, for a loan of seventy-five years with interest at 4.50 per cent. the total annuity is only 4.67, so that only 0.17 per cent. is the amortization amount. For fifty-one years the total annuity is 5.0 for forty years 5.41, for thirty years 6.10. The method is worth explaining—suppose a loan of Rs. 100 for fifty years with an annuity of 5.72 per cent. consisting of 5.30 interest and 0.42 amortization fund; in fifty years, $0.42 \times 50 =$ only 21 which is the sum apparently paid by the borrower, and yet these payments have extinguished the whole debt of 100. The explanation of course is that, as the amortization amount accumulates at compound interest, the principal due gradually diminishes; hence, the annuity remaining constant, the portion due to interest decreases, and the portion credited to amortization increases; so that at the end of twenty years the latter has increased to 1.15 and the former diminished to 4.57, and at the end of forty years the amounts are 3.28 and 2.44 respectively. The principle is adopted for all land improvement loans in all countries, including the loans granted in India by the State for that purpose: these are generally repaid by annuities of comparatively short term. In Europe all loans based upon the land, and, in the Raiffeisen societies all long-term loans, are repayable by annuity only, as being the safest method for the ryot, The subject is detailed here, as the principle and reason of the practice are not generally known, or accepted as suitable.

Again if a man borrows 10,000 for fifty years from the society at 5.72 per cent., viz., 5.30 interest and .42 amortization, he will pay annually 572 or in fifty years 28,600. If he borrowed as usual from the capitalist at 5.30 per cent., he would pay during fifty years 26,500 as interest and still owe the capital of 10,000, or in all he would pay 36,500 or 7,900 more than in the former case. Of course, he might have put the difference between 5.30 and 5.72 to compound interest, if he were *absolutely* prudent, and had a banker, and was never tempted or required to draw upon his funds, but practically this would never be the case. On the other hand no private person will lend for fifty years, nor at 5.3 per cent. interest for such a time, nor would he consent to receive back his capital in petty driblets during such a period. Hence the advantage in borrowing from the bank is incalculable.

Another result from the general amortization of the debt is that as the principal is paid off, it is possible with the consent of the society, to relieve a portion, *e.g.*, a field, of the property mortgaged, or to pledge a smaller property in its place. Another great advantage to the society is that the security of its mortgage increases exactly in the ratio that the principal debt decreases.

Repayment.—This has been dealt with under ' amortization ' as regards the ordinary payment by annuities of long-term loans. But these loans may also be repaid at any time wholly or in part, if the borrower finds himself able to do so. In most cases six or three months' notice is required; subject to this condition and to a small commission required to build up a reserve against expenses, and against loss in the repayment at par of debenture bonds perhaps issued below par, and against a possible loss of interest on the money repaid before it can be advanced on a fresh loan, a borrower can pay off his loan whenever he pleases or as much of it as he pleases. In other words repayment of a long-term loan from a society can never be demanded of a borrower except by the covenanted annuities save only in certain specified circumstances such as the deterioration or neglect of the property, its unauthorized sale, &c., while it is repayable by him in whole or in part, at pleasure. It is usual in the Crédit Foncier to credit the borrower with the amount of advance repayments by means of a reduction of the annuity, leaving the length of the loan as before, but it is equally allowable to keep the annuity rate, and reduce the term.

All payments of annuities, &c., may be made into the local Government treasuries (recettes des finances) on the 10th January and 10th July. If made by instalments in advance, interest as in deposits ($\frac{1}{2}$ per cent.) is allowed on the sums paid: if by a single payment of a whole half a year's annuity in advance, interest at 2 per cent. is allowed.

Recovery of Loans and Instalments.—It is in this matter that some of the chief privileges of European land banks are found. If cheap money is wanted, the lender must be absolutely sure of getting his money back and of getting it back easily, quickly and cheaply. If the lending society cannot recover its loans, principal and annuities with ease and certainty, not only must it raise the price of its loans, but the capitalists who lend to the society must also ask a higher rate, since their ultimate and

principal security is the mass of mortgages held by the society; if recovery of the money guaranteed by mortgages is difficult and costly, the security of the capitalist's money will *pro tanto* be reduced. Moreover if these banks are to fulfil their rôle of teaching habits of business, punctuality, prudence, and foresight, they must have the power to enforce these habits on their clients, and while granting them by their statutes and organization, every facility, whether for cheap loans, for the most gradual and easy repayment of those loans, for repayment, moreover, at any time and almost in any sum, they must be able to demand the strictest exactitude in the borrower's fulfilment of his part of the contract. Exactitude does not forbid a certain amount of elasticity, but exactitude must be compulsory, if the country is to gain by its institutions. Hence—and because ordinary methods are slow, cumbrous and costly—every European country has given its land banks special privileges for the recovery (*a*) of the annuities due, (*b*) of the principal in certain cases.

In the Crédit Foncier of France the privilege granted for the recovery of the money lent are chiefly those of special methods and rights in procedure; such are (1) even the Courts can decree no delay and give no time to a defaulter in the matter of paying his annuity; (2) no third party can move the Courts to attach annuities on account of debt in any case; (3) penal interest at 5 per cent. accrues as a matter of course and right, the day after an annuity being due, remains unpaid, (4) the society has power to attach, for default, the property mortgaged; the attachment is effected under an order of Court obtainable on demand; (5) the right in such case to collect the rent, harvests, &c., of the estate as against all parties or other attachments (nonobstant toute opposition ou saisie); the right however is limited in that it takes rank only after * (*a*) expenses for the preservation of the property; (*b*) expenses for labour and seed necessary to work it; (*c*) the dues of the State; (6) simple and rapid methods of sale and expropriation by the Civil Court in case of default; (7) right to credit the money without delay direct to the society's treasury; (8) speedy and summary inquiries in the Courts in case of any dispute whether by the defaulter or by third parties; (9) if an annuity is in default, the whole principal may be demanded within one month after notice.

(1) *Refusal of Delay.*—The provision debars the judges in cases of default from exercising the right given by the ordinary civil law of granting a debtor time for repayment of his debts. The judge, can give no time in the case of Crédit Foncier annuities.

(2) *Refusal to allow opposition to the payment of Dues.*—This applies not only to annuities owed to the society by borrowers, but to the dues owed by the society to its debenture-holders. No third party can intervene as creditor through the Courts between the society and its creditors or its debtors in the matter of these dues.

(4 and 5).—The fourth and fifth privileges are those of attachment, if necessary, sale of the mortgaged property under special facilities and the receipt as against all other creditors—except certain specified " privileged " creditors—of the proceeds of the estate during attachment. The annuities are considered to be a portion of the proceeds, which are therefore the first object in collection. On default the society sends a notice to the debtor of intended attachment; at the same time it demands of the Court having jurisdiction (debtor's domicile or the location of the property) an order or authorization permitting attachment; this is granted as a matter of course, and being an authorization and not a judgment is, according to French law, not appealable; it can only be opposed by a regular suit. Attachment can take place on this authorization fifteen days after the notice to the debtor. During attachment the society is in the position of proprietor and must manage the property carefully; *per contra* it has the right of a proprietor and on receipt of a simple notice, tenants can only pay their rent to the society's agent. It can freely sell the produce as though proprietor and credit itself with all the proceeds. The society has the right to the produce as against all opponents and in spite of any other attachment.

This privilege takes rank next after the privilege attached to (1) expenses of preservation and management, (2) expenses of cultivation (labours et semences), (3) dues of the treasury, and extends not only to the annuities but to the expenses connected with recovering their dues. Only complete payment releases the attachment, unless the society consents to the release, or abuses its powers. The privileged attachment is upon the land, and no change of ownership affects the society's rights. At the close of the attachment the society reckons up with the debtor, and any dispute must be settled summarily by a competent Court. The " summary suits " are really summary, they are conducted in the briefest and cheapest way, without special pleadings and formalities, and have the briefest of records; appeal is however admissible. The Court can remit the case to an advocate as arbitrator. If attachment is undesirable or the results unsatisfactory. the society may proceed to sell the property mortgaged. The special procedure prescribed for this is peculiar to itself, and should the

* These are " privileges " established by civil law in favour of certain claims against property; the dues of the State take precedence of all the other " privileged " claims. The French law is particularly full in regard to the respective claims of various creditors upon property, certain privileges taking rank even before mortgages: such are not only the dues of the State, but those of Courts, those for funeral expenses, for death-bed attendance, for wages, for six months' subsistence, for rents for the preservation of property, for the price of goods sold, for seed, cultivation and harvest expenses, for the supply of implements, for the purchase money of estate, for the lender who has supplied the price of such purchase, for the architects, builders, masons and workmen employed in building or repairing property, for those who have lent money to pay the latter class of claimants, &c., (*See* Civil Code, sections 2092 to 2112).

society transfer its debt to a third party, that person does not enjoy the privileged procedure. Moreover it only applies to the specific property pledged for the loan; the society has rights like other creditors, over the property of its debtor, but in such case can only follow the ordinary procedure.

The ordinary law is cumbrous and dilatory; the various notices and delays between the first notice of intended sale and actual sale, necessarily occupy about six months and probably very much more, if at all contested, or if there is any delay in the Courts. Under the privileged procedure, the time occupied is six weeks, and in two months from first notice the society will have touched the proceeds of the sale. The formalities are still considerable, for the State jealously safe-guards agricultural industry and property from any undue or hasty expropriation, or from loss due to haste or impatience on the part of the creditors or to ignorance by the debtors of the proceedings taken by them. Recognizing that hasty and imperfectly advertised sales are a fertile source of ruin and discontent, very full precautions must be observed even in the comparatively summary procedure allowed to the Crédit Foncier; above all, however, there is the safe-guard afforded to debtors by the continual control and supervision exercised by the State over all proceedings of the society, and by its jealous supervision over the exact execution of its statutes which have already been subjected to State scrutiny and authorization. The steps of procedure by the Crédit Foncier are as follow:—

(1) Notice to the debtor.

(2) Registration of the notice in the Mortgage Registrar's office.

(3) Deposit with the Registrar of the Court of an inventory of the goods and conditions of sale.

(4) Fixing by the Court of the date of sale.

(5) Advertisement in local journals, three notices at ten-day intervals.

(6) First public notice struck up (*a*) on the notice board of the Court, (*b*) at the door of the mayor's office of the town or village, (*c*) on the property, if a building. Other notices are prescribed at common law, but not by the special law governing the Crédit Foncier.

(7) Notice to the debtor and to all creditors on registered documents of the above public notice (No. 6) calling attention to the inventory No. 3.

(8) Second affixing of public notice in the same places as No. 6 and fifteen days subsequently.

(9) Period allowed for objections by the debtor and the other creditors.

(10) Sale, fifteen days after No. (9), and in presence of the debtor and the other registered creditors or their agents if present. To be held before the Court having jurisdiction or some other Court authorized by it or, if the Court permits, before a Notary public of the canton or circle in which the property is situated.

In Italy the land banks are entitled to use against those in arrears with their annuities the same summary processes as regards movables that the State uses when levying on movable property for arrears of direct taxes; they can also proceed to recover the whole loan if annuities are in arrears.

The procedure here alluded to is simply that of distraint: the tax-collector, who is in Italy, a farmer, or contractor and not a Government officer, must send to a defaulter a special notice giving five days' time; at the end of that period he can proceed to attach such movables as are not barred by law from distraint; if the property is in possession of a third person, recourse is had to the Courts for distraint. A copy of the distraint proceedings and list of property must at once be sent to the village mayor (monigar). The distrainer is not allowed to retain possession of the goods, but must hand them for safe custody to a third person, or to the defaulter (*cf.* English law) or to the village mayor. After ten days the distrainer publishes in the village a sale notice, and may sell on the expiry of the period therein entered. Every thing is conducted within the village and there is no need of elaborate notices from and to the higher authorities.

The goods exempted from attachment are those exempted by the Civil Procedure Code from attachment by Courts, viz., the beds and clothes in daily use of the defaulter and family, cooking utensils, and some other articles are absolutely exempted; the following are exempted unless there is no other property, and even these can only be attached for rent, for debts on account of food supplies, and other dues specially privileged; such are books, instruments and other requisites for carrying on a business, trade or profession up to the value of £20; grain and produce necessary to feed the family for a month; a cow, two goats or three sheep at the option of the defaulter, together with their fodder for one month. Silk-worms, except in the cocoon, and ungathered crops unless within one week of harvest may not be attached, nor can State stipends or pensions except under the provisions of a special law.

The exceptions resemble those of the European laws in general and of the Indian Civil Procedure Code, but in Germany the Landschaften may not distrain any movables necessary to the due working of a farm, but only surplus stock.

In Hungary the Boden credit and Austro-Hungarian banks have unusual and summary powers of recovery and foreclosure; they act through the Commercial Court and can obtain immediate execution without the usual delays and formalities. It appears, too, that these summary powers exist as regards property other than that immediately mortgaged; this is an advance on the French privileges, and seems of doubtful advisability. Default however is said to be rare.

In Germany there are various rules both for preventing arrears, as by fines, by demanding even for the shortest delay, six months' interest on the sum in arrears, &c., and for recovery of arrears. All the Old Landschaften have the right of proceeding at once by way of distraint against movables; the New Landschaften do not seem to have this right, but proceed through the Courts which, however, are bound to lend summary aid, apparently without the need of previous enquiry. In the attachment of movables all stock and implements necessary for the due working of the farm are by law exempted; only surplus farm stock may be taken in addition to the ordinary property of the defaulter. In the Pomeranian Landschaft, the directors on default occurring, send an agent to distrain the movables of the debtor or to sell his produce. If, on examination, this proves or is judged insufficient, recourse is had to the attachment, and, if necessary, sale of the property under mortgage; attachment is not necessarily a preliminary to sale; it is customary to treat it as a separate form of coercive process, and may be made either by obtaining an order from a Court, or by the managing director, who is at liberty to use these powers either for recovery of the annuities or to secure the society's interests. The property is placed in charge of an agent under the supervision of a commissioner, who exercises all the rights of a proprietor. If attachment and management are insufficient, the property may be sold under order of Court which is necessarily granted on demand.

In Wurttemberg the society may borrow from a bank the sum due, all charges for such loans being at the defaulters' expense; if there is still default, the society can demand repayment on three months' notice. This can also be claimed on a second default, or the society may proceed to attachment and sale of the property. In Mecklenburg Strelitz the bank can obtain execution against the defaulter through the Courts by means of orders which are issued *gratis*, or the estate may be attached and managed by an agent of the society. In Bavaria the joint stock mortgage bank has summary powers of attachment and sale, as in the Pomeranian association (Landschaften) and, as in the other German land banks, delays are brief and judicial proceedings are simplified.

Privileges for Security in other cases.—In the Crédit Foncier and in land credit associations generally the society can demand the repayment of their loan in full, if the property pledged becomes deteriorated to the amount of 25 per cent. or if it is sold without the society's consent or divided, should its value have thereby been in any way decreased, or possession disturbed or the society's security diminished, or if the borrower becomes bankrupt. These are similar provisions are common to all European land banks.

Short-term loans.—The above provisions relate to the long-term loan. The rules for short-term advances are slightly different. Short-term loans are those granted for less than ten years. They are repayable either in full at the end of the term of the loan or by annuities in which latter case debentures may be issued in representation of them and for similarly short terms.

General results.—The effect of these various societies and banks must be considered. The two main objects which each institution or system set before itself were: (1) the redemption of the landholders from the private mortgages and usurious debts which were an absolute mill-stone round their necks, sinking them inextricably in a slough of indebtedness, poverty and bankruptcy; (2) the improvement and development of agriculture, chiefly by the indirect methods of freeing proprietors from debt and other charges, and of advancing capital on cheap terms for general purposes, rather than by the direct methods of loans expressly for drainage and other agricultural impovements. Have these banks succeeded in either object? Especially have they succeeded in aiding the small proprietors in either matter? For, remembering that in Europe the bulk of the proprietors are petty holders (in France there are 6½ millions of rural estates, 5 millions of which comprise an area which gives only 6 acres each on an average, some being smaller, some larger), it is obvious that institutions to be of full use in the manner mentioned must deal with small proprietors, and that institutions which do not do so are comparatively of little use in aiding the "people" and in developing agriculture among those very classes who require special aid. Larger and medium proprietors have no difficulty in raising money in the ordinary way; it has been stated—roughly of course—that, while a rural proprietor with land worth £200 can barely get a loan for £50 and that at high interest quarters of its value, while a very rich landlord enjoys credit beyond that of the actual a man with an estate worth £8,000 or £10,000 can raise loans up to one-half or three-market value of his estate. Anyhow, economists in France, Germany, Austria, Switzerland and Italy agree that the peasant proprietor, the small cultivator is the person who requires cheap credit on easy terms of repayment, and it is his agriculture which needs development and stimulus. If then the land credit banks or societies of Europe have not dealt and dealt principally with the smaller landholders, they have failed in their main object, and of their national importance and value; they have failed also as examples for India.

The German Landschaften were avowedly started to aid a "noble" proprietary, and though of late years the Yeoman ('Bauer') class have been partially admitted, yet the ordinary economic rule of lending to those who have the largest and best estates, has ever prevailed, and insuperable difficulty has been encountered in attempting to finance the small proprietor by a mortgage bank. Practically the Old Landschaften—probably owing to their foundation principle of unlimited guarantee, which causes extreme caution in operation—never grant any loans except such as are *absolutely* safe; it is needless to say that if only are to obtain credit whose property is unencumbered, complete in title and much in excess

of the proposed loan, and who require loans sufficiently large to make the expenses of inquiry &c., no impossible charge upon the loan, the vast mass of proprietors will be left without help, while the banks, however attractive their reports and figures, will fail of their *raison d'être*. Without asking banks to enter upon risky business, a land bank must, after it has placed its business on a firm footing, touch second class business, namely those cases where the aid of the bank will enable men to extricate their estates, or to develop a poor farm with little present security, into a paying estate of which the *plus* value, after the improvement has been carried out, will be the real security; such are the cases of farms unproductive for want of drainage, &c., or, as in India, of dry land farms of little immediate value, but capable by means of wells to be dug by the proposed loans, of becoming gardens even in a wilderness. Above all they must be able to lend petty sums to petty borrowers, viz., those whose farms do not exceed 15 acres in extent. By this standard the German Landschaften have not fulfilled the mission of popular land banks for which indeed they were not organized; in 1879 the French Consul in Silesia—where the first land bank was started in 1770—expressly stated that the third class of agriculturists whether proprietors or tenants, *i.e.*, all those below the medium position, had no resource but the ruinous resort to usurers, and were in a critical state (Note sur le crédit agricole mobilier, 1880). The German Minister of Agriculture (report for 1884-87) as well as other authorities, expressly declares that for small folk a mere land bank is little suitable; their operations cannot extend to such borrowers.

The Landschaften have, however, cheapened the terms of business among banking houses; owing to the fact that they have no share capital and dividends, they can grant loans at the lowest possible interest, and being scattered over many Provinces, all competing institutions must adopt, or approximate to their rates. This is an improvement common to all borrowers who can deal with banks.

As for the aggregate amount of the loans granted by the Landschaften and mortgage banks, they are as follows: the former, *plus* State land banks, lent up to 1883 about £75,000,000; the mortgage banks lent about £92,000,000. These figures have much increased of late years, especially for the mortgage banks, but the exact figures are not available, except that in 1890 the mortgage banks had £163,540,000 in mortgage loans. But it is to be noted (1) that as the bulk of these mortgages are for long periods up to sixty years, the annual amount is not very considerable; (2) that, while the Landschaften lend almost entirely on landed property, three-fourths of the mortgage *bank business is in urban property; (3) that the Landschaften hardly lend at all on small peasant property; (4) that the total mortgages granted by all the various land banks is probably not one-half of the mortgage debt of the country and that that half is chiefly on property other than small rural property. German mortgages are probably not short of £600,000,000, seeing that the mortgage debt in Prussia alone before 1870 was estimated at £350,000,000* and is known to be rapidly increasing (£17,000,000 in the three years ending 1889), while that of France is known to be about £660,000,000 allowing for all mortgages expired but not cancelled.

Again, all banks have a minimum value for loans or for property on which loans will be granted; this is not always ascertainable, but, for the Landschaften, the minimum value of estates on which loans will be granted, is as follows, having been greatly decreased during the last forty years: in East Prussia an estimated sale value—much below market value—of £75; in West Prussia of £150; in Posen of £200; in Silesia a net annual income, assessed to the land tax (Grundsteuerreinertrag) of £1-10-0; in Westphalia of £5; in Brandenburg, Saxony and Schleswig Holstein of £7--10--0; in Pomerania of £12. Similarly, in the joint stock bank of Alsace Lorraine, only founded in 1872, the minimum loan which may be granted is £15, and in the State banks of Saxony and Hesse Cassel, £7 and £14 are, respectively, the minima.

Now these minima are illusory when compared with the actual facts. It has been shown in detail under ' German land banks ' that neither the Landschaften nor the joint stock banks can lend such small sums to the small holder; few men, even with 25 acres, can expect to borrow where the average of existing rural loans from banks is even as low as £280 (the lowest shown with three exceptions), while it appears (Report on Land Tenures in Europe) that the average rate of loan was about £8-10-0 per acre (35 thalers per morgen) in Silesia; and, as shown in the section on German Landschaften *s.v.* ' Loans ', the average loan per acre for several Provinces cannot be much above £5 or £6 per acre. The majority of the banks had averages far more than double or even quadruple the sum of £280; the Landschaften show loans averaging from £716 (Silesia) upwards to £7,449 (Pomerania), while the joint stock banks averaged from £280 (Bavaria) to £3,376 (Alsace Lorraine). Moreover the above figures are, generally speaking, the average of all loans in existence on a given date; since all loans are under repayment by amortization, the existing average value of loans ranging from one to forty years of age is much below the average value when granted.

The exceptions were three, viz., Nuremburg (joint stock) with an average of existing values of £262, Cassel (State) with an average for rural loans granted in 1891 of £225 (290 in 1890) and Nassau with a similar average of £241. In the first case the loans were largely

* Since the above was written it has been ascertained that "the amount of mortgages upon landed estates and "peasant holdings in Prussia has increased since 1886 by £45,000,000, and amounts altogether to about £500,000,000,' a burden which is rightly described as "oppressive indebtedness of agricultural land." Apparently, therefore, this does not include urban debt. (*Commercial No. 3 of 1894.*)

urban, close to the bank; in the latter two cases the banks were situated in very petty areas close to the people and utilizing the Revenue officers as agencies.

Now it will be shown below that the loans taken by small proprietors in France and Switzerland are generally below £50 or somewhat higher, as may be inferred, from the size of their holdings; consequently, the similar class of proprietor in Germany will require similar loans. Prussia in fact had in 1882, the latest year for which full statistics are available, 3,040,196 separate farms, of which 1,456,724 or 48 per cent. were below 2½ acres and and not above half of the latter are likely to borrow above (say) £50 to £75, an amount very far below the smallest average of the land banks, probably much below even the ordinary minimum actually granted in such banks. In fact in the report for 1884-87 of the German Minister of Agriculture, it is expressly stated that the minimum fixed by the Landsbaften as the valuation on which loans may be granted (die Grenzen des beleihbaren Minimalwerthes der Besitzungen) is in general so arranged that they can lend "*even*" to peasant * farms which require teams for cultivation, *i.e.*, to farmers requiring two horses or three oxen which in 1870 averaged for Prussia 34 acres with a minimum of 15; for still smaller holdings, unable as they are to offer substantial security, a mere Real credit bank is not at all suited (ist ein blosses Real-kredit Institut überhaupt wenig geeignet). It will be noticed that the report does not say that the team-requiring farms are reached by the Landschaften, but that their limits (minimum) permit of such farms being reached; now, as shown above, the minimum is only nominal, the actuals being much higher. The fact is that very small loans on land are almost impossible to banks of any considerable size: they are troublesome and risky and bring little, if any, profit to the banks, while they are expensive to the borrowers from the initial expenses common to large and small loans. In the above remarks the effect of the rent charge banks is excluded; these are special banks intended solely to enable the peasants generally to redeem by lump payments the various commuted feudal common, and other charges due by them to the nobles, and thus to obtain their properties free of harassing claims; they simply took up the financial part of an operation which had been effected by many years of previous work, through commissions appointed to work out special laws; the banks merely lent an amount ascertained, fixed once for all, and commuted by the commissioners. These have done good work, but they are not land credit banks.

For Austria few statistics are available for this study. It is stated in general terms, that the "small and medium" proprietors can scarcely have recourse to mortgage loans from banks, but are obliged to resort to the usurer "who devours them."

For Hungary the well-known Boden credit institution founded by philanthropic land proprietors, especially to help one another, grants no loan less than £83 (1,000 florins). In 1889, 7,229 loans were in actual existence, averaging somewhat over £1,040 each; in 1889, 412 loans were granted at an average of £1,750 each. Up to 1889 loans had been granted for about £14,000,000 in about 11,000 loans, of which 5,511 were below £260 averaging (probably) about £200 each.

One writer states that this society only lends to large and medium proprietors, as in fact the figures show: moreover as the rate of loan per acre of land averaged £1-12-0, no person holding less than 50 acres can possibly borrow with a minimum fixed at £83. This fact was so notorious that in 1879 a special society, under a special law, was passed to grant mortgage loans to "small landholders," Government contributing £41,000 as a reserve fund. The minimum loan which can be granted by this society is £25 and in ten years 9,726 loans had been granted for £925,750, averaging £95 per loan. Of these 3,644 had been granted with an average of £33, which at £1-12-0 per acre represents properties of at least 20 acres; even these smallest loans touch only the upper margin of small proprietors, and is expressly stated by one writer that the institution does not satisfy the needs of "petty" proprietors.

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* The word "peasant" has caused much misconception in considering the results of German land banks. The word translated "peasant" (Bauer) means in German simply a non-noble and refers to his political or social, and not to his material *status*; it corresponds rather to the French "roturier" as distinguished from the "noblesse," or the English yeoman or yeoman farmer as contrasted with the baron or squire, than to the word "peasant" which in English has now a restricted meaning, and refers only to very small holders such as cottiers or labourers. In English the word does not strictly include even small farmers, while in Germany the "peasant property" may be a holding of many acres; *e.g.*, in Commercial No. 5 of 1891, it is said that a middle-sized estate, viz., one of 7½ to 150 hectares (18¾ to 375 acres) is called in Germany a "peasant's estate." In 1816 a "peasant" estate was declared by Royal edict to be a non-noble estate which could maintain the owner as an independent cultivator, and in 1836 a similar edict fixed about 18 to 20 acres (25 morgen) as the minimum of such a farm. Similarly in Schleswig Holestein a "peasant" (Bauer) is a man with 100 acres, a half peasant holds 50; a man with only 15 or less is a Kathner, or again he is elsewhere a Kuh-bauer (owner of a cow), or he may be a Hüfner (holder of a hide of land, such as may be ploughed in a day), or even a half Hüfner, etc. In Denmark, too, a minimum limit has been legally fixed for farms to be called peasant farms.

So Mr. Wolff in the 'Contemporary Review' for 1891, page 735, states that English writers have confounded the German meaning of the word "peasant"—a pretty substantial proprietor owning from 20 to 200 acres—with the English. The peasant or "Bauer" is simply a non-noble and in Prussia, for example, peasant proprietors above 20 acres, and averaging 62 acres each, occupy about 45 per cent. of the whole area, while the mass of "small" proprietors hold a far smaller percentage. For the purposes of this study the word "peasant" will be abandoned; (*a*) men holding below 7 or 8 acres will be called "very small" and (*b*) men from 7 or 8 up to 15 or 20 acres "small" proprietors; the remainder will be (*c*) medium or (*d*) large according as they hold up to about 100 acres or above that area. For this Presidency the corresponding ryots will be (*a*) those paying less than Rs. 10 as land-tax, (*b*) those paying up to Rs. 30, (*c*) those paying from Rs. 30 to 250, and (*d*) those paying above Rs. 250.

In reading in various works and essays that the German land banks have done much for the "peasantry" this limitation must be borne in mind, in addition to the fact that the land banks proper have not yet done very much for the peasant of any class.

Nevertheless, except for the land banks of two or three small German principalities, and of two or three little Swiss cantons, this land bank is almost alone amongst land banks proper in granting really small mortgage loans to peasants. Unfortunately no details are at present available for an analysis of the actual work and methods of this bank; they will be supplied at a future date.

In Italy with a poor peasantry the minimum loan grantable by the land banks is £40, and it is therefore not surprising to read—in the words of one economist—that "the services "rendered by the Italian land bank system to agriculture, at all events to the small culti- "vator, are absolutely *nil;* the whole capital advanced on mortgage by the Real credit "institutions is absorbed by the great proprietors." In fact up to 1885 the banks had only advanced 8,355 loans for £13,239,244 being an average of £1,585; less than 2,500 were below £400, the average of these being about £240, showing conclusively that the Italian land banks had not touched the small landholder. On the 1st January 1891, they had lent £29,426,320 in 14,594 loans, an average of £2,016 each. Hence the frequent and recently (1893) renewed alterations in the law regarding these banks. Even the land credit branch of the great Savings bank of Milan, probably the cheapest of land banks, is unable to lend at all events in Venetia, on areas below 75 acres (American Consular Reports).

An analysis of the most recent report of the Crédit Foncier of France leads to a similar conclusion. From the commencement in 1852 up to 31st December 1890, the total mortgage loans granted were 77,536 for over £139,000,000, being an average of nearly £1,800 per loan. Of these only 18,059 were for sums below £200, the average of these being £130 and the largest proportion being urban. It is clear then that if the small proprietors are reached at all, it is but to an infinitesimal degree and yet France is, *par excellence*, the land of small proprietors, the number of estates being above 6½ millions entirely excluding house properties. M. de Lavergne calculated that in France there were 5 million proprietors holding on an average 3 hectares (7½ acres) each, real peasant proprietors, of whom however many hold very much less and are partly labourers, partly owners, while many hold up to, perhaps, 20 acres. At present the côtes foncières (taxation accounts or puttahs) for estates less than 25 acres (10 hectares) are five-sixths of the total number of 6½ millions. In every 25,000 acres there are 1,144 holdings, of which 969 or nearly 85 per cent. are below 25 acres. Now, since the holders of the land under 25 acres number about 5,500,000, if only one-third want to borrow, there will be at least 1,800,000 borrowers. But as the loans under £200 are less than 1,000 per annum and as only two-sevenths of all loans go to the land, the rest going to urban property, it follows that the Crédit Foncier only supplies, at most, 300 small proprietors per annum or one in 6,000 of possible borrowers; and further, that as the small loan averages £131, no proprietor of the vast 7½ acre class can hope to borrow. Again in 1881, up to which time, for want of agencies outside Paris, the number of small loans was insignificant, the number of loans issued below £200 reached 1,170; in 1882, 1,581 were issued averaging £132; in 1883, 1,524. But from 1886, when they were 1,068, they steadily decreased in number, being only 829 in 1890 with an average of £131. Now it has been ascertained that of the mortgage loans in France granted by banks or persons other than the Crédit Foncier, no less than two-thirds are for sums below £40, the mean of these being for £16. It is true that the general inquiry on this point was in 1840, but the proportion is found still to hold good in testing single arrondissements, with a somewhat higher mean owing to the fall in money; the rate is, moreover, confirmed by the experience of Swiss banks which (*cf.* Berne) habitually grant a vast number of mortgage loans between £6 and £40. But if this is even approximately true or even if the mean of the small mortgages be twice or thrice as high, it is clear that the Crédit Foncier does not get below the medium proprietor even for the few loans under £200 that it grants; a mean of £131 for small loans is incomparably greater than the mean of small proprietors' loans for all France of £16 or even a hypothetical £32 or £48. Moreover, in considering the above figures, it must be mentioned that in France commercial transactions descend to a very small value; *e.g.*, even the great bank of France itself discounts annually large numbers of bills of 10 francs (8*s.* 4*d.*) and very large numbers below £2, all of which would be curiosities in London, so that rural loans of £131 are relatively much larger and relate to larger areas and transactions than they would in England. Hence it is clear that the Crédit Foncier has not only not reached the small rural properties, but fails to do so in an increasing degree.

Again on testing the nature of the property on which loans are granted, it is found that out of 77,536 loans for £139,000,000, no less than 55,034 or nearly five-sevenths to the amount of £110,484,000 were granted on urban property only, leaving less than £29,000,000 for all rural and mixed property. Of late years the proportion of rural and urban loans is slightly better than before 1885, but there is no great improvement. What, as regards agriculture, is a sum of £29,000,000 in 20,500 loans, spread over thirty-eight years, when compared with the enormous needs of the agriculture of France, of which the net annual proceeds to the cultivators (all expenses deducted) is calculated to be £100,000,000, while the sale value of the lands including all buildings thereon, but not urban property, is said to be £2,800,000,000.

Again, though the bank as 73 agencies or branches, there are 87 districts in France, and each agency has on an average exactly half a million people in its range; obviously one agent can only deal with a few persons, and naturally, those will be the applicants lying nearest, or who require the largest and most easily examined loans. To judge by the paucity of rural loans the agencies would seem to be for the purpose of selling debentures,

rather than of granting loans. Hence, up to date, the Crédit Foncier has not succeeded in touching the burdens of the peasant proprietors of France who are the vast mass of her cultivators, nor in developing her agriculture.

France as yet is little further advanced than India as regards Real credit banks for peasant proprietors, whose sole resource is private money-lenders with their usual high, if not usurious terms. Nor has any great assistance been rendered to agriculture in general since the total amount of its rural loans, for all purposes during forty years is but three-tenths of one year's net income of the proprietors and about 1 per cent. of the gross sale value of the landed property itself. Neither in France, nor in Germany, nor in Italy, nor in Austria, has it been found possible by Central land banks to supply the small proprietors—those below 18 to 25 acres—with cheap credit; the difficulties of inspection, of ascertaining values, of ensuring security, of keeping accounts and check over thousands of petty proprietors without altogether disproportionate expenses whether to the borrowers or to the banks, have foiled the excellent intentions of the Governments and of the banking societies themselves. The importance of the above facts as bearing on proposals for India is not small when the avowed aims of institutions organized with all the skill and forethought of the nations most skilled in organization are considered. In this no blame attaches to the banks; only they have not been able fully to succeed in the generous aims with which they are started or which they subsequently adopted. But enormous good has been done in developing and spreading the system of Real credit for long terms and in popularizing the method of financing long-term loans, and of repayment by amortization.

Switzerland has, however, some lessons to teach in this matter of results. In Berne it is stated that the market rate of interest or mortgages has been distinctly lowered, irrespective of the general European fall, by the action of the State mortgage bank: not because the State has resorted to artificial aids or financially favoured operations by bearing losses. but by the operation of a powerful and well-regulated bank, operating primarily for the benefit of borrowers. There the banks have enabled borrowers, as however is the case elsewhere, to pay off old usurious loans, to strengthen and clear their position by establishing themselves as debtors to a single creditor who grants the easiest possible terms and allows the loans to be paid off by infinitesimal instalments at convenient periods.

Again owing to simple and rational laws of mortgage, loans upon land can be obtained in Switzerland cheaply and easily, so that the peasants prefer this method of raising money for loans even of only two or three years' duration. Hence the numerous land banks, State or joint stock, do a very large business and have placed cheap credit within reach of the Swiss peasantry who have taken advantage of this to get rid of their usurious debts; in fact, the Federal Department of the Interior states that individual capitalists are no longer of any importance as lending agents; the mortgage and Savings banks being at present almost the only sources from which the landed proprietor borrows.

What this means to the people may be inferred from the example of the canton of Berne where the mortgage debt is £16,000,000 (1890) or 40 per cent. of the total value of the real property in the canton, and amounts to £30 per head of the population. This enormous burden is possibly endurable at 4½ or 5 per cent., but at 8 per cent. would be intolerable and impossible. Indeed, as elsewhere shown, it is probable that much of this debt has been incurred solely because banking credit is cheap and reasonable; rates are cheaper, but the mass of the burden is greater. It is, however, clear that the banks in Switzerland have cheapened credit and have ousted the private money-lender.

Now the Swiss banks have clearly got down to the peasantry; the loans granted are extremely small. In 1881 the average value of all the existing loans in the Swiss mortgage banks proper was only £194, while in two of these banks it was as low as £95 and £113; this was the average of loans under amortization, and about one-third should be added to get the average value of loans as granted. But even an average of from £150 to £250 implies a large number of far smaller loans, such as are practically unheard of in the ordinary German or French land societies.

It is then clear that the European land credit banks have done a great amount of good in lending to certain classes of proprietors, in redeeming feudal and other charges, in reducing the interest and charges on their loans, in introducing a scientific method of financing their operations from the mass of petty savings of the public, in clearing off old mortgages of usurious interest and substituting single debts at moderate rates, and in inculcating and rendering universal the method of repayment by annuities with amortization over a long series of years; it is also, however, clear that the mass of small proprietors has nowhere been reached by these banks except in Switzerland, in two or three small German States including Bavaria, and apparently by one bank in Hungary.

What then is the missing link between the borrowing public and societies like the Crèdit Foncier of France, with its magnificent organization, its privileges, its able administration and staff, its abundant and cheap money and splendid credit. What is it that is needed to bring their loans down to the mass of small proprietors, and to enable them to absorb a really large proportion of rural mortgage debt. The central organization seems perfect everywhere, and is little different in any country; why is it then that the banks in the great countries have failed where the banks in little Switzerland have succeeded? Is not the secret in the very words " great, " and " little "? It is true that the German land banks are established in and for Provinces, and not generally for vast areas, but (1)

the Landschaften began and to a great extent have continued with the aim and intention of helping the large proprietors, while the mortgage banks are intended in cities and deal mostly with urban property; (2) each Province is far bigger than a Swiss canton; each Prussian Province averages a little over 2,000,000 inhabitants, while Switzerland with only 2,934,057 inhabitants has 22 cantons or Provinces, each provided with a Government banks, &c.; the canton of Berne is the giant amongst them, having 539,271 inhabitants, or about one-quarter of an average Prussian Province or Madras district; the average population of a Swiss canton is, in fact, less by a good deal than that of a Madras taluk only five having above 150,000 inhabitants, all of whom live in communes, which, in several cases, are directly connected with the banks and their administration; (3) while it is true that the Landschaften, State banks and mortgage banks together, now number about 69, and that many other institutions, such as Savings banks, insurance societies, pious foundations, &c., also grant real credit, the total number, situated, moreover mostly in the towns, for the millions of German people cannot compare with the 900 banks of all sorts and nearly all ready to grant loans on mortgage, established among the 3 millions of Swiss people.

In other words, the minuteness of Switzerland and especially of its administrative units, the extreme sub-division of a small country into separate States, each with an advanced and complete political, social and economic organization, added, moreover, to the greatly-developed instincts of independence, self-reliance and self-completeness, have resulted in a very complete system of organized credit, complete even for single villages and, where central, connected with the villages by an ingenious ramification, so that the Swiss banks, whether central or local, are either in absolute contract or linked in close touch with their clients. They are planted right among the peasants and can easily obtain information as to the circumstances of each borrower, who again knows of and is near his bank. Education and social characteristics including especially the communal and co-operative instinct so strongly developed in Switzerland, doubtless have their weight in this matter, but the German proprietor is also fairly educated and prudent, and also lives in communities in the villages, and the French peasant if less educated is renowned for his thrift and carefulness. The Swiss indeed have laws which favour cheap mortgages, but the key word to their success is *proximity*.

It is only by *proximity* that any banks, whether of real or personal credit can fulfil their true mission. and it is precisely this element that is absent in institutions such as the Crédit Foncier of France, and even in the later land banks of Germany, all of which were avowedly started for the people generally and not for nobles and great proprietors only. It is true that the German banks have branches and agents in the chief places of the Provinces, and that, since 1879, the Crédit Foncier has had agents and branches which now number 73. The number of the German branches is not known but is clearly not great (in one Province four) for the popular banks to be hereafter described were founded for the express purpose of bringing banking credit down to the people. In France there are 73 agencies, but there are 87 departments or districts, each of which is a complete and important administrative unit with an average population of nearly half a million, and therefore far larger than an ordinary Swiss canton with its average of nearly 120,000. When a vast central society proposes to lend to agriculture, and as not even a branch in every district and only one branch or agency for exactly half a million people, it is certain that its work will be confined to the easiest and most obvious classes of loans, viz., to urban properties, chiefly buildings, and to considerable rural estates.

Here the question of centralization comes in; great central societies have better credit than small ones, but cannot reach the people, for they cannot easily or cheaply test the value of securities offered and they fear to rely on their agents over whom they have little check; while branches can seldom prove a pecuniary success when the proposed clientèle is that of small farmers with very small individual requirements, and equally small security; it takes long and costs much to establish such a clientèle, the expenses meanwhile exceed the profits a hundredfold, and the margin of profit can never be considerable when individual operations are small and costly. On the other hand though small local societies are in touch with the people, yet their credit is less and their loans are therefore dearer, while they have no strength to resist unaided bad years or reverses. The difficulty is one of those much discussed in France, and, in 1851, before the Crédit Foncier was actually organized M. Josseau the learned and experienced author of the standard work on the Crédit Foncier of France, and an economist, financier, and administrator of now half a century's experience gave his opinion in favour of a Central bank with numerous local societies or sub-offices.

M. Josseau after considering the reasons for and against a single society, and those for and against a number of independent societies, concludes in favour of a mixed system in which there should be a central society with sub-offices or local societies affiliated to it; these latter would be under the control of the central society, but with a separate administration which would examine all applications for credit and transmit them, if approved, to the central society, to which would be confined the power of final decision, of issuing debentures, of settling the instalments for repayment, &c. But by means of local sub-offices it would be possible to vary the conditions of loans to suit local needs, classes of cultivation, &c.

Similarly M. Durand in regard to Italy quotes, with approval, the opinion of M. Cordova, Italian Minister of Commerce, who points out that the varying conditions and needs of agriculture, the necessity for local knowledge and *surveillance* can only be met by local societies.

So M. Borie desires small local cantonal banks founded by private initiative, especially that of the agriculturists themselves, financed partly by petty savings, partly by bills rendered " bancables "— acceptable by the bank of France—through the branches of the bank.

The great question then is, how to establish Real credit on such a footing that it may be in absolute proximity to the mass of the people, like the popular or Savings banks, while enjoying the organization and credit of a central society like the Crédit Foncier of France.

This question has already been discussed in Europe, and one result has been the establishment of Central banks; for the Landschaften there is the Central Landschaft, and for the mortgage banks the Central joint stock bank, both at Berlin; it will be seen hereafter that the popular banks and societies of Germany and Italy have experienced a similar need, and have adopted, *mutatis mutandis*, a similar plan. By these banks it is sought to combine the local knowledge of the Provincial banks with the credit of a Central bank. A description will elsewhere be found; but, at present, the organization is not likely to be needed in Madras, for, except in Scotland, Central banks have always succeeded and not preceded local rural operations: local banks start and provide fairly cheap organized credit, and these are subsequently linked to a Central bank, as competition and industrial needs demand cheaper and yet cheaper capital. The case of Scotland is an exceptional as its people.

Indebtedness as affected by Land banks.—It remains to consider the result of the land banks on indebtedness. Have the banks increased or reduced either the amount of debt or its burden, and have they transformed the debt or any part of it into useful and productive indebtedness?

There are various answers to these questions, and nothing certain is ascertainable from the data available. For, even if it be believed that indebtedness has increased in volume and in weight, it does not follow that this is the result of the banks' action; and, again, though greater as expressed in money, it may form a smaller burden on property owing to increased values, or it may be the result of borrowing for productive outlay, or, as in Switzerland, a transformation of floating book debt, as in the usurer's running accounts, into the visible and more solid form of mortgage debts, or, as in Germany to a small extent, a capitalization of annual charges into a mortgage debt amortizable by annuities. It is not safe then to generalize upon the action of banks upon indebtedness. A few opinions may be given however.

In Germany feudal charges and other local burdens have undoubtedly been paid off by the peasant owners through the rent charge banks. On the other hand this improvement has itself opened the door of general credit to the same farmers, so that, unless they have used their credit productively, their position is not necessarily any better as to indebtedness, which, in fact, as measured in mortgage loans, may have or rather has immensery increased, as is statistically provable.

In Hungary some persons consider that indebtedness has been " very materially alleviated " by the creation of the Boden-credit bank; on the other hand others altogether deny it; considering that between 1863 and 1889 only 11,242 loans had been granted for about £14,000,000, it is absurd to suppose that this one institution can have had much effect on general indebtedness; moreover the average size of the loans shows that only considerable proprietors were aided by the institution. Th matter is here mentioned rather to show the exaggerated views sometimes taken; probably the witnesses knew of a few cases, and this may be conceded. It is moreover considered—though the data are not stated—that some of this borrowed capital has been productively invested.

In Austria it is considered that the various land credit associations have alleviated the burden of debt; but no statistics whatever are given, or any reasons for the assertion. Probably all that is meant is that loans are undoubtedly obtainable by those whom the banks reach on far easier terms than from the usurer.

Similarly in Belgium it is stated that " loans repayable by annuities tend to lessen the total of the " debt on real property, " but no data are given.

Again, in Italy, the answer to the same question is that the " condition " under which loans are granted are certainly advantageous as compared with the conditions imposed by money-lenders. This however is not the point.

France has been sufficiently dealt with in criticizing the action of the Crèdit Foncier which is the only purely land mortgage bank in the country.

In the above countries all that is certain is that the land banks proper have granted a certain moderate amount of cheap credit to large and medium landed proprietors, and a very small amount indeed to a few small proprietors.

In Switzerland there are more data to go upon, and the evidence is peculiarly interesting because it is exactly in Switzerland that Real credit has been so thoroughly organized and cheapened—chiefly by private societies without privilege—that the private money-lender has practically been ousted, and banking credit has been rendered so accessible and cheap that any farmer can, and probably nearly every one does, avail himself of it. Now in that country it is accepted as a fact, provable by statistics, that in the last few years, during which banking credit has thus been cheapened and popularized, indebtedness has immensely increased not only absolutely, but relatively to land values. Taking the canton of Berne, it is found that in 1856 the land was worth £24,255,488 and the debts thereon were £7,245,690 or 29.9 per cent. But in 1889, though the land had increased in value

up to £40,735,084, the debt had increased to £15,952,492 or 39.1 per cent.; of this debt, only about 17,7 per cent. was held by the cantonal mortgage bank, the remainder chiefly by local mortgage or Savings banks. Other cantons have a similar increase of debt. "It "may be accepted as a fact recognized by all who have studied the question with any atten- "tion that the indebtedness of the peasant proprietors in Switzerland has increased to a "very large extent during the last twenty years." (Commercial No. 5 of 1891, reply based on that from the Swiss Federal Statistical office.) It is in fact stated express that thirty years ago (1856) the embarrassments of the peasant proprietors were due to the high interest on loans from private lenders and to the absence of a proper system of land credit; hence it was in the "re-organization" of that credit and in the creation of mortgage banks and loan associations that the remedy was sought. Now, however, "borrowing" has been rendered easy for him, too easy indeed, perhaps, for the indebtedness on the land cannot go on increasing, as it has been doing for the last thirty years, without seriously endangering the agriculturists' position. Thirty years ago the remedy sought was the reform of the Real credit system—that of the usurer—and the supply of cheap capital by the introduction of land banks; in the present decade the usurer has given place to the banks, and dear to cheap credit, but the amount and actual burden of the debt has enormously increased. Remembering that land banks seldom grant above 50 per cent. of the estimated, not the market value of property, it is clear that a debt of 16 millions on property worth 41 millions means almost universal mortgage indebtedness; this is confirmed by the reports of the American Consuls in 1884.

It is right however to state that nothing can be predicated against the banks for this result; it may be that credit has been rendered easy and indebtedness increased; but there is nothing to show that the increase is due to the action of the banks, and that had it not been for the banks, the indebtedness might not have been as great or greater, and on much more onerous terms; it may be not the banks but the conditions of society that have caused the increase of indebtedness among one of the best educated, most industrious and prudent people in the world; such are (1) the general European fall in the prices of produce; (2) the operation of the laws of inheritance, either that the land should be equally divided or that one son should take the property and pay his co-heirs the value in money, which of course is raised by mortgage; (3) the competition for land owing to the increase of population, leading to high sale prices and consequent indebtedness; (4) the fact that in Berne an abatement of taxation is granted on all land on which there are mortgages, a short-sighted policy which naturally encourages debt; (5) a substitution of mortgage debt for floating book debt owing to the cheapness and ease of Real credit loans; (6) a certain amount of actual improvement to the land and stock, owing to the demand for higher farming. Nevertheless it is clear that, even in enlightened and progressive Switzerland, the mere organization of cheap credit and its approximation to the people are *per se* insufficient remedies for economic malaise; facile credit does not necessarily mean alleviated burdens. Moreover, as Lord Vernon has recently pointed out in the "Nineteenth Century," it is true that mortgages when of very long term and repayable by amortization, are apt to increase indebtedness, in that a borrower is able, in the first place, to throw at least part of the debt on future owners, and in the second because the burden of repayment is so little felt that loans are entered into with a light heart to the full loanable value of the property and the proceeds equally lightly expended. These are facts which must not be lost sight of whether in considering the effect of land banks on European indebtedness or in estimating the desirability and probable effects of such credit on a population in the position and with the characteristics of Indian ryots.

In Sweden again, where the peasant is decidedly frugal and thrifty, the indebtedness has increased (1) by reason of the law of inheritance, (2) by the increase in the number of country banks, which give facilities for borrowing money cheaply; (3) by the demands made for higher farming. There is also a steady increase in debt in the well-managed kingdom of Denmark, where the indebtedness of peasant proprietors has steadily increased from 25 per cent. up to 50 per cent.—almost the full loanable value—of the value of the land in forty years, in spite of increased value to the land. In Norway (Foreign Office No. 282 of 1893), it is asserted by a member of the "Storthing" that "those who now in reality own the soil "of Norway are the bank of Norway, the land mortgage bank, the Savings banks and "merchants in town" that the mortgage debt on agricultural land had increased from £9;000,000 in 1865 to £36,000,000 or more in 1893, while the total officially estimated value of real property is only £40,000,000; that the peasant proprietor owns only about one-sixteenth of the value of his lands, &c., and that the mere interest on the mortgage debt amounts to about one-sixth of the *total* yield of agriculture in Norway. The Minister of Agriculture thought that there was some exaggeration in the figures, but the general assertion was not controverted. Here the banks are mentioned as the chief creditors of the frightfully encumbered peasants. Belgium is no exception to the increase, and it is said that only those keep out of debt and impoverishment, "who possess all the absolutely necessary virtues, strict economy, morality, exemplary activity, abstinance from alcoholic excess and even from "frequenting the public houses." In these two latter cases, however, the action of banks is not stated as a cause of the increase. In Austria indebtedness has greatly increased among the peasants, but the land banks have not reached them. The facts mentioned above are largely taken from Commercial No. 5 of 1891.

On the whole indebtedness seems the present law of the peasant proprietor, and though this cannot be set down to the action of the land banks, in that without banks, the debt might have been nearly as great and much more onerous, yet it is clear that no mere improvement in the machinery of credit can work out the fiancial or economic salvation of the peasant, if that credit is not itself safe-guarded against abuse, if credit is not itself a distinct educative and disciplinary power among the people as provided and controlled by themselves, if men are otherwise hampered by adverse social or economic conditions. It would be wholly out of place here to discuss such of those social conditions—custom, ignorance, improvidence, inertia, the laws of inheritance, the methods of taxation, &c.—as are not connected with the re-organization of credit, but it is clear that institutions of credit, real or personal, if they are to prove blessings and not curses in disguise, if they are to effect their full benefit, if they are to be, as they may be, institutions to re-organize not merely credit but social characteristics and economic stability, must not be mere machines receiving pledges and issuing loans careless of the use to which the loans are put, but must be living organizations of aid amongst the people, safe-guarding their interests not merely in granting non-usurious loans, but in determining the use to which those loans are put; it is, in fact, to the due and productive employment of the loans granted on cheap terms and to the educative results of association on the clientèle whether borrowers or otherwise that the credit institutions must look, rather than to the mere granting of cheap loans. A due consideration of this point is of the utmost importance. In a report on the land banks of Germany, dated 1845, it is expressly stated that "the facility with which land-owners found that they could obtain loans (from the land banks) at moderate interest, "led them to borrow heavily for the purposes of luxury and other unproductive expenditure" or even for the purposes of speculating with the proceeds of the loans, in the early days of such banks, so that banks and borrowers alike were brought into the greatest danger, leading, in fact with other causes, to a forced suspension of the repayments of dues; the case of the Nobles land bank in Russia affords a parallel. At this day the indebtedness of land-owners coupled with the "abuse of credit" (Stern 'Die drei Fragen des Grundbesitzes') are amongst the most prominent of European land questions; the effect of the facile credit of the banks on the one hand and the dearness of credit or rather of usury on the other, are questions of the day, and are not to be answered by a mere alteration in the machinery of credit, unless the principle of the machine is also altered.

If such are the dangers and difficulties in Europe, those of India can hardly be less. It is useless, however amiable, to believe that the ryot is only thirsting for capital in order to invest it at once in the improvement and development of his estate, that the influx of cheap capital is all that is wanted to enable him to wipe off his old debts in order to start forthwith on a self-denying career of productivity; it is dangerous to confer, whether upon the peasant proprietor or upon the Pariah labourer, a fancy character, born possibly of hope or of an enlightened personal conception of one's own probable or possible action under similar circumstances, and forthwith to start for his aid institutions suited to such character, with the certain result that he will do what more educated and enlightened men did and do whether in Germany in the early days of land banks, or in Europe generally in these days of competition and facile credit. Credit is a remedy, but like many remedies, it is also a dangerous poison (a double-edged tool, a consuming as well as a comforting fire, to use metaphors from European writers) and in applying the novelty wholesale to the Indian ryot, it must be applied with the caution that such remedies require, lest the ryots learn too easily to borrow with a light heart, the lighter that the terms are favourable and repayment so easy and so gradual. In what way does it benefit a peasant to owe £200 at 4 per cent. to a bank instead of £100 at 8 per cent. to a money-lender, unless it is absolutely certain that the whole difference has been spent in the improvement of the estate, a hypothesis absolutely in contradiction with the European evidence which shows that Land Improvement banks are the latest in development and the least in demand, and that the loans are for "family purposes," for the repayment of previous debt, for the purchase of land, the payment of taxes and the like. What does it matter to a peasant whether he is ruined by a bank or by a money-lender, by the too facile credit of the one or the too usurious terms of the other? It is not facile credit or cheap credit or organized credit, but guarded, disciplinary, educative credit which is required, and the land banks, as at present constituted, are not organized to that end. Nevertheless, it is believed that institutions for the grant of such credit do not only exist, but are specially adapted to the needs of the small folk, and that even land banks, if as careful in the selection of their clients and in the intended use for their loans, as in their demand for mere material security for their money, could in a great degree fulfil this object.

This is no theoretic or academic suggestion; those who know the history and operations of the old English country banks or of the Scotch banks, or of the new but immensely numerous German and Italian popular banks, know that this was and is the part played by them in developing agriculture and social character; the English country banker with or without the family solicitor, the Notariat of France solicitors and negotiators of loans, the Scotch banks with their easy loans and cheap cash credit but only to men known to be steady, thrifty and to be purposing improvements, the European popular banks and credit associations, the true *raison d'être* of which is the development of thrift, foresight, brotherhood and social advancement, rather than the mere grant of cheap credit, the Building societies or co-operative banks of Great Britain and the United States; these are all

living examples and proofs of the true rôle of credit institutions and, by contrast, argue error in those institutions which are simply credit issuing machines.

Resumé.—It remains to sum up the facts and results disclosed by the preceding analysis of land credit institutions in Europe. There are three main classes: (1) the societies of borrowers (mutual credit associations) typified by the Prussian Landschaften which were the originals of all land banks in Europe and which have no share capital or dividends, but work solely for the benefit of the borrowers, who reap the advantage of all profits; (2) the societies of lenders or capitalists (joint stock companies) typified by the Crédit Foncier of France, which is also the model for a vast number of similar institutions throughout Europe, and which are worked not merely to provide cheap loans for borrowers, but primarily to obtain dividends for the capitalists large or small, who find their share capital; (3) the State banks, including those initiated and managed by Provinces; these are of minor importance. The most successful rural banks are those based on the mutual system working for the benefit of borrowers and not for dividends for shareholders, and it is this mutuality and freedom from working for gain, so that the exploitation of poverty and misfortune is impossible, that is one justification for the privileges and support granted by Government, which, on the other hand, seldom gives special privileges to ordinary joint stock or commercial companies.

The objects of all societies alike are (1) the relief of land-holders from usurious and manifold debt by the substitution of a single honest and straight-forward creditor; (2) the development of agriculture and land improvement.

These objects were to be attained (1) by tapping a hitherto undeveloped financial source, viz., the idle and petty savings of the public, through a system of debenture bonds open to all who have a few pounds in hand and who desire to place them at interest and yet to have them available at will; (2) by lending this money out on very long-term loans, at interest as low as economical management and good security would admit; (3) in a method of repayment (amortization) by which the loan was insensibly and gradually paid off either from the borrowers' savings, or from the increased income derived from the improvement which the loan had effected.

The State has in all cases been the initiating power either by direct fiat as in the Landschaften, by favouring legislation as in the Crédit Foncier of France, or by direct organization. In all cases the State has assumed powers of supervision varying from direct management in the case of the State banks and from large controlling and directive powers in the case of the Crédit Foncier to that of supervision and the receipt of returns and reports, as in Italy, with an intermediate stage of supervision, and even control by means of a State officer appointed *ad hoc*.

These institutions have the usual staff of directors, committees of control and supervision, and of auditors, while in all cases there is a general assembly consisting either of all members, or of only members with particular qualifications; the powers whether of the general assembly, which is sometimes a mere body convened to hear a report and to give an expected sanction, but is generally the source of power, or of the several boards, are largely determined by the powers given to the State commissioner, who may be as in the Crédit Foncier of France a governor with almost entire power of management and control, or an officer with power of veto and supervision little inferior, or he may be a mere inspecting and reporting officer.

The societies provide various securities for their creditors; the first class (Landschaften) have as guarantees not only the property on which they have granted mortgages, but the unlimited mutual guarantee of all their members, and sometimes of all the landholders of the Province; they have also reserves sometimes supplied or aided by a State grant-in-aid; a State guarantee is however rare. The second class (joint stock companies) provide for their creditors the guarantee of the property mortgaged to them, but in place of an unlimited liability, they furnish a share capital and reserves; occasionally these have State aid, and in one case, at all events, a State guarantee for a minimum interest. In the third class the State, which is the founder and manager is of course the guarantee.

Certain privileges are given to some societies, viz., financial in the way of occasional subventions or guarantees and the permission to issue debenture bonds; fiscal by way of privileged reduction of stamp duties, registration fees, and as regards the mutual societies such as the Landschaften and Boden credit institute of Hungary, by freedom from the income-tax; legal in the way of cheap and speedy procedure in obtaining the position of first mortgagee, and in the recovery of dues.

Banks generally, with exceptions in Germany where the privilege is not always granted to the new mortgage banks, find their money for loans in the system of debentures (Pfandbriefe, obligations foncèires) issued by the societies against the above securities; these usually bear about $3\frac{1}{2}$ to 4 per cent. interest and are issued in series to the public, each bond being usually of small amount. Their acceptance is promoted by a system of bonuses on repayment, premia, and lottery prizes, which latter improve the interest, but act chiefly upon the hopes of each holder that his debenture may bring a prize and perhaps a very large one. The bonds are paid off by periodical drawings, as the mortgage loans are gradually repaid, it being an absolute rule that the amount of bonds in circulation shall not exceed the value of mortgage loans in existence.

Loans are granted to half or two-thirds the value of the property pledged and only on first mortgage, this position being secured either by paying off prior mortgages or by the

"purge" which temporarily bars, but only as against the society, all claims arising out of relationship and civil status. The condition of the property is watched very strictly during the continuance of the loan, which may be called in if the property is allowed to deteriorate. Loans are generally granted for very long terms, none being less—under the ordinary rules—than for ten years, and most being accepted for terms of forty to seventy-five years. But, while the bank cannot demand payment except by the regular annuities, unless in case of deterioration, &c., the borrower may repay the bank in full or in part in advance at any time.

Repayment for all long-term loans is solely by amortization usually beginning at ½ to 1 per cent. per annum; this is added to the interest, and the whole—about 5 per cent. *plus* commission, if such exists as in some German banks—forms an annuity, which is paid by half-yearly instalments, often into the Government treasuries which are scattered over the country. This sinking fund principle by which loans are insensibly paid off by extremely small instalments, over a long term of years, is the invention of the Landschaften, and has been improved and developed in later societies; it is now universal and is—with the debenture—the grand feature of European land credit societies.

The land banks usually have considerable privileges for enforcing punctuality and repayment; these are chiefly by cheap and speedy procedure in the Courts, or in direct distraint &c., by the bank's agents; all operations not carried out by the bank's agents are executed by the Courts and judicial authorities and *not* by the Government executive officers.

The general results are excellent so far as the operations extend; money is cheaply granted; the position of the land-owner is simplified, interest is kept down and in some places the usurer has been controlled, or—in Switzerland—relegated to a very inferior place. But save in Switzerland, the land societies have *not* reached the vast mass of petty proprietors, viz., those holding below 20 or 25 acres: these are still in the position they occupied before the banks started; it is the large and medium proprietors and the holders of urban property who have almost solely benefited; so far as regards the men who are in the position of the mass of Indian ryot, all the statutes, all the efforts, all the experience of Governments, business men, economists and philanthropists, brought to bear for at least forty years, and for much more in Germany, have utterly failed to organize a working Real credit for them; the difficulties in the way of mortgage loans depending on the security of petty farms, which in case of default are of minimum value to the creditors have proved insuperable. Only in the Savings banks—as will be seen hereafter—do the small folk find some help in the matter of Real credit, but even here the result is unstatisfactory, for the Savings banks are not intentionally organized as lending institutions, except perhaps under the new laws of Italy, and in the case of the Savings banks, so called,—often however mere joint stock banks taking very small deposits,—of Switzerland and the United States.

The preceding study suggests the various systems possible.

(1) The Central National Crédit Foncier, having a temporary monopoly for the whole country for certain methods and privileges, possessing therefore immense credit and commanding the best financial and business talent, but suffering from the grave and so far insuperable defect of absence of touch with the mass of landholders.

(2) Provincial banks and societies—with or without a monopoly—as in Germany and Italy, possessing less general but probably equal local credit, judging by the fact that the debentures of the German land banks are quoted as high as those of the Crédit Foncier of France, so that the Italian failure is not necessarily due to the Provincial character of the banks; autonomous and independent in not being branches or offshoot of other institutions or affiliated to them.

(3) Provincial banks or societies linked with a Central bank; the latter, as in Russia, alone issues debentures to the public upon the paper of the Provincial banks, which in turn is based on the usual mortgages; or they simply draw funds from the Central bank and pay interest thereon, as in Sweden.

(4) Local banks or societies, wholly autonomous, resting solely upon their own credit, and upon their own funds whether of subscribed capital, of deposits, or of loans variously obtained; necessarily therefore of less general credit, and buying money dearer, but possessed of the inestimable qualities of proximity and local knowledge and influence; similar to the country banks of England of the National banks of America.

(5) Local banks or societies linked with a Central bank as in cases (3) and (4).

(6) Central or Provincial banks or societies, linked direct with the communes both financially and administratively, as in the case of the Swiss banks of Berne and Geneva.

(7) Free banks of any description.

All the above except No .(1), which can only be joint stock, may be either joint stock banks of lenders, e.g., the Crédit Foncier of France and mortgage banks of Germany, or mutual societies of borrowers, as the German Landschaften, &c.

For application to Madras, Central should be read as Presidency, Provincial should be District, Local should be Taluk, Union or even Village.

In brief, every European country has started land banks, at first at all events by the initiative or impulse of Government; these have done much good work in several countries as regards the larger and medium proprietors but have not yet reached the small folk; urban property has benefited more largely than rural estates. Switzerland has developed a rural banking system in contact with the peasants, but the facilities thus offered have resulted

in heavier indebtedness, of which the productive value is very doubtful. But credit awaits further development in Europe before it can reach the small proprietor in its modern form of long-term amortized loans.

Other Banks.—The preceding study has dealt solely with banks which are either entirely or principally land mortgage banks or societies. It has not attempted to deal with banks which make real credit merely one of several objects; it is the special European real credit systems that have been described.

But apart from ordinary banks and private lenders must be mentioned the Savings banks and Popular banks of Europe, the National banks, Savings banks and co-operative banks (Building societies) of the United States, the Building societies of Great Britain and the Scotch banks. These will be described hereafter under special chapters; suffice it here to say that the Savings banks play a chief part in the mortgage loans of both continents it is these banks which are in Europe, the mortgage banks of the petty proprietors. In Germany, for instance, in 1888 the deposits in the Savings banks (Sparkassen) were £150,936,832 of which 27.45 per cent. or £41,432,160 were placed in *rural* mortgages. In the United States of America in 1891, 1,011 Savings banks lent no less than £137,516,783 on real estate and in 1893 above 150 millions. The similar operations of the National banks are not known, but are very large.

CHAPTER V.—CREDIT AGRICOLE.

In Europe as has been stated, rural credit is generally divided into Crédit Foncier or immobilier, and crédit mobilier or agricole.* The former has been described in detail, and its shortcomings as regards the peasant class generally, have been shown. Nevertheless, the imposing institutions which have been created *ad hoc*, and the fact that those who can complain the loudest—viz., the large and medium proprietors and urban property holders—have been well served by these institutions, have diverted public attention from the further development downwards of this class of credit, and attention has been increasingly attracted to the ' Crédit Agricole ' as the means for the economic salvation of the small farmer.

This form of credit includes chattel credit, *i.e.*, the credit based on movables, such as crops, stock, furniture, &c., and personal credit, or that based on a man's *status* and general position, his character, his property and his reputation.

Before proceeding to discuss the ' Crédit Agricole, ' it will be well to rehearse once more the nature of the credit required by the farmer; it is impossible to discuss or devise systems for granting him credit unless his needs are distinctly defined and grasped. For permanent improvements, then, whether of irrigation, plantation, buildings, levelling, and those lengthy operations which convert mere " anâthi tarisu, " or neglected and possibly exhausted dry lands into fertile gardens, long-term loans are needed, in which the capital borrowed may be replaced by small annual instalments from the improved income. This form of credit is based upon the security of the land itself, which remains permanently as the guarantee for the loan. This is the Crédit Foncier, which has been fully described in the preceding chapters. But the farmer, proprietor, or tenant, requires other classes of credit; he needs money for cattle, manure, new implements, seed, maintenance, wages, rent or assessment, &c., and for this, comparatively short-term loans are necessary, varying in duration according to the class of requirement, from (say) three months to three or four years. Now, unless, as in Switzerland, mortgages are cheap and very accessible, it is obviously absurd to pledge land for a mere passing need. The crops, stock, and personal status of the farmer ought to be amply sufficient for loans necessarily moderate and of comparatively brief term; if credit has been effectively organized in a country, nothing can be simpler than for the farmer to seek his banker and obtain a short loan either on his mere bill or note of hand, or as a cash credit, or by a bill of sale, or in other simple ways. But this is precisely what is universally wanting to the small farmer, universally, that is, on the continent of Europe, where " the ignorant peasants, recognizing nothing save that money is necessary, " rush into debt, and fall into the clutches of men who, under pretext of helping them, " only desire to cause their ruin and to grow rich at their expense "; (Le Barbier). It is then the organization of this class of credit that remains to be discussed. It will be useful, further, to point out that discussions in France have largely turned upon chattel credit, *e.g.*, in giving the farmer a greater borrowing value in his crops and movables by limiting the landlord's privileges over them, in enabling him to pledge his stock, crops, &c., without delivery to the pledgee, &c., while in Germany chattel credit has never attracted much attention; it is the development of personal credit that has there occupied men's minds.

The reason why Germany has relegated chattel credit to a wholly secondary place is (1) that as the landlord has by law the first rights over the crops and stock of the farm up to the amount of his rents, it is impossible to pledge them by delivery to a third party without wronging the landlord, unless with his consent; (2) that crops and stocks and furniture by their very nature cannot be removed or delivered to the custody of the pledgee without disturbing or preventing the work of the farm. In Germany, therefore, while personal credit largely depends upon a consideration of the possessions of the borrower, those possessions are not themselves given actually in pledge, and chattel credit is practically of little use. This is equally the case in France, but the course of action has been vastly different; the

* In Europe the words ' Crédit Agricole ' are used in a technical sense; they do not mean " agricultural credit " that is, credit in general granted to agriculturists, but those particular classes of agricultural credit not covered by land credit (Crédit Foncier, Boden Credit), viz., chattel and personal credit.

business men of Germany, abandoning the idea of chattel credit, have sought development of personal credit, while their confrères in France have either unceasingly discussed the possibilities of developing chattel credit, so that the debates on the Crédit Agricole in France have been largely synonymous with debates on the restriction of the landlord's privileges as entered in the Civil Code, the pledge without delivery (gage sans déplacement), the assimilation of the peasant borrower to the commercant, and his subjection to the commercial law and Courts, or they have attempted to provide agricultural credit, which deals with petty transactions over the face of a whole country, by means of central institutions which could not possibly touch the difficulties. Hence the actual result is, that in France, where it is extremely difficult to alter the law, altogether apart from the practical difficulties in the way of chattel credit, the Crédit Agricole is, still, a matter of discussion, and the peasant is actually without agricultural credit, except in so far as the usual money-lender will grant it; whereas in Germany certain practical minds borrowing the principles of association, unlimited liability and local effort from the Landschaften of their own country and the Banks of Scotland, have founded the popular banks and credi institutions, which, though not yet fully developed, have, so far as they have gone, solved the problem of credit to the petty proprietor, artisan or tradesman, and while so doing have fostered and are fostering precisely those habits of thrift, temperance, prudence, punctuality, public spirit, enterprise and combination, which are the substructure of all permanent and substantial progress. France has discussed legal improvements and central institutions, the idea of the latter being based on the success of the Crédit Foncier, and being equally consonant with the centralizing ideas and methods which find favour in that country; such institutions have neither succeeded nor survived. On the other hand, the Germans put all legal questions aside and set to work to develop local societies for mutual assistance and credit, which draw their funds from outside by virtue of unlimited liability (solidarity), safeguard all internal transactions by the local knowledge available to them as a local association or brotherhood, and have eventually supplied by development, the links between themselves united in groups, and between themselves and central societies which grew up to supply a felt want. Not only did they not trouble the Legislature to alter the substantive law of the country, but they themselves were, for many years, to some extent outside the law, as being societies not recognized as moral and commercial entities; they had no *locus standi* in the Courts and survived at first solely by virtue of their own meritorious management. The general result is that while in France there is—speaking generally—not a popular bank nor a society for agricultural credit, there are in Germany popular banks and credit institutions by the thousand, dealing in rural credit by tens of millions sterling and developing each year not merely in numbers, but in importance and in beneficent influence, while their example has been copied in all other continental countries, and a beginning has, since 1889, been made in France also. Probably this latter great country will now develop the idea in its usual thorough and masterly way. *

The present chapter will deal with attempts in Europe to solve the problem by central institutions or large societies founded either by or with the favour of Government, or by private initiative. This will be followed in the next chapter by a description of the popular banks and local credit associations which are now scattered over Europe.

France.—In 1845 the French Government were so filled with the idea of the need for organizing this credit, that besides a great congress of agriculturists, economists, proprietors and lawyers, summoned to consider this and other questions, they sent an Inspector of Agriculture, M. Royer, to Germany to study the systems that might be found there; he came back with the report of a system not of the Crédit Agricole but of the Crédit Foncier in the shape of the Landschaften system of Prussia which was the germ of the great Crédit Foncier of France in 1852. From that time to this, the "Enquête sur le crédit agricole" has been unceasing; several (four) Government commissions have enquired and reported at length; district councils have been called on for opinions; agricultural societies have made elaborate enquiries and formulated their suggestions; consuls in foreign parts have written numerous reports; conferences of the highest financial, agricultural, and economic authorities, have been held; ministers have issued questionnaires and duly filed and sometimes published the replies; Legislative bills have been drawn up and submitted to discussion; the newspapers, reviews, and agricultural journals have discussed the matter times without number, and more than 200 separate projects have, it is stated, been conceived, but perished in their birth. State organization, State funds, State guarantee, paper money inconvertible or otherwise, modifications of the law as to landlords, the "gage sans dessaisissement" or pledge without delivery, the commercialization of agricultural paper; such were the bases of innumerable suggestions, if indeed they were not summed up in the resolution which closed the debate of the great congress in 1845; "The congress is of opinion that "Government should study the question of credit intended for agriculturists." Government was called upon to organize the 'Crédit Agricole,' as a sort of *deus ex machinâ* provided with a universal panacea; a Government "organization" was "the demand "which ended all the speeches, all the essays, all the reports which aimed at the esta- "blishment of agricultural credit" "(M. Darblay quoted in M. Borie's Etude sur le crédit

* The above was written in 1892. Since that date the question of 'Le Crédit Agricole' has been earnestly taken up by the Legislature; a Bill has this year (1894) passed the Chamber of Deputies, and is under discussion in the Senate, by which this form of credit is to be organized, and a subventioned Central bank established. A translation of this new law will, it is hoped, be found in another appendix.

agricole, &c.). " The general idea was to form a special establishment for the sole purpose of granting agricultural credit, which was regarded as something special and by itself, probably from the fact that while credit in general is open to business men (commercants), artisans, &c., and while their notes of hand or ninety-day bills were accepted by the Bank of France if provided with the usual " three signatures, " and were subject to the rapid and summary procedure of the Code of Commerce, the paper of agriculturists was practically unknown; it could not become " commercial " paper, owing to the restrictive provisions of the civil law, and was consequently refused by the banks and could not be dealt with by the Commercial Courts. Hence the idea grew up that agricultural credit was a thing by itself, needing a very special organization and the grant of the particular privileges from Government, if not a Government organization, subvention or guarantee.

On the other hand, certain economists and financiers pointed out that there was no such separate thing as agricultural credit; what was wanted was that the farmer should be able to obtain simply that credit which was denied him by the law (Civil Code) which in attempting to safeguard him from contracting usurious debts, had paralysed his credit; that with this view all that was needed was—

(1) that the landlord's privileges over the tenant's movables should be diminished;
(2) that the privileges of the landlord should be transferable (*e.g.*, to a society);
(3) that the farmer should be able to pledge his crops, &c., without delivery;
(4) that he should, for purposes of credit, be placed under the operation of the Commercial Code, as being more summary and effective than the Civil Code, and that his bills should be " commercialized " or treated as those of " commercants. " They demanded simply that the agriculturist should be freed in matters of credit from the restrictions which hindered him, and should be granted facilities given to other classes of trade and industry, and they advised either a National bank of agriculture with district and taluk branches, or institutions of private origin, either on the joint stock or mutual principle; some proposed banks to lend directly, others institutions to discount bills accepted by banks; others to give them guarantees, so that the ordinary banks might discount agricultural paper. In the present work it is however impossible, nor would it be profitable to detail the various proposals.

It may also be stated briefly that the concessions required by the various commissions and congresses, economists and projects, have never yet been accepted by the legislative authorities; the sole concession is that of 1889, when a law was passed limiting the special privilege, *i.e.*, priority of the landlords over the goods and stock of his tenant, to the rent of two past years, the current year and the year following. So far as the ' Crédit Agricole ' depends on changes in the law, it is practically in the same position now, as in 1845, when the proposals were first formulated.

Other attempts to solve the problem have, however, been made. In 1860 the Emperor intervened directly, and under the intimation conveyed in his letter to the Minister of Agriculture, the Crédit Foncier agreed to form, in 1860, the ' society for agricultural crédit (' La société du crédit agricole ').

In pursuance of this agreement a bill was framed which, with the statement of objects and reasons, and the report of the special committee presented to the Legislature, are extremely interesting and are suggestive for Indian considerations.

The first document, 30th June 1860, recites that the immediate idea was excited by the recent Exhibition, in which the " small cultivator " had neither part nor lot save that of gaping curiosity, or of envious wonder at the methods and implements which he could not procure. This led to a consideration of the want of capital by the cultivator, the defects and expenses of the loan upon mortgage, and the invidious position occupied by the small proprietor, who, in spite of his possessing a farm with stock, crops, &c., could not, by law, negotiate a bill, while any petty trader or artisan could readily do so. It was, therefore, decided to form a society, after the model of the Crédit Foncier, which, by means of intermediaries, should obtain good agricultural paper, guarantee it by its own signature, and rediscount it with the Bank of France which requires " three signatures, " of which at least one must be that of a recognized commercant having an account with it. This society was to be managed by the Governor, &c., of the Crédit Foncier, with, however, a board of directors and general assembly of its own.

But as the attempt was an experiment in unknown financial methods and fields, it required some Government support. This was provided by the Government convention with the society, by which Government guaranteed for five years a minimum of 4 per cent interest to the shareholders should the profits form insufficient; this however was limited by a stipulation that losses were not to be deducted from gross profits (les bénéfices ne seront point calculés deduction faite des pertes; le Trésor ne pourra jamais souffrir des imprudences ou des negligences de la société); in calculating profits in reference to the Government subvention failures of repayment by debtors were to be counted as though paid. Hence the subvention was nothing more than, so to say, an evidence of interest and encouragement.

The report of the committee points out the difficulties of agriculture under the land tax, the heavy transfer charges for transfer and succession, the absorption of capital by the system of inheritance, the consequent increasing mortgage debt upon the soil, aggravated moreover by its continual " morcellement, " the heavy price demanded for land as compared with its net returns, the imperfection of cultivation and the estrangement of extra-

neous capital from agriculture. Capital, again, is deterred from turning towards agriculture by the uncertainty of agricultural operations, the numerous failures, disasters and diseases to which it is subjected by nature, the consequent unpunctuality of the borrower, or his inability to meet his engagements, all of which lead to heavy terms by lenders. The Crédit Foncier was never intended to supply circulating capital to the farmer; this is the duty of " le crédit agricole, " and the problem is how to secure the desired capital to the cultivator with security to lender and borrower.

Obviously the State could not undertake the rôle of agricultural banker; it could not command the funds or enter into the millions of necessary enquiries and engagements. On the other hand, private initiative, so far, had done nothing. *Manet sors tertia;* a mixed society, partly private, partly public, founded on the model of the Crédit Foncier, which was to be established by the intervention of Government, subsidized to some extent by it, managed by a Governor appointed and dismissible by the State, and yet be a private joint stock institution, administered without State control and prospering entirely on its own resources. The society was to have a capital of £800,000, of which one-tenth was to be paid up, and bonds given by the subscribers (*cf.* Hungarian ' Boden Credit institute ') for three tenths of the remainder. Its objects were the negotiation of agricultural bills of ninety days; the opening of cash credits and granting of loans for a minimum of three (afterwards five) years, the receipt of deposits up to one-and-a-half times the total of the capital paid up or represented by the subscribers' bonds, the opening of accounts current, and generally all operations intended to encourage and develop agriculture. Its methods will be described below; practically it was to be a mere endorsing intermediary or guarantee between the borrower and the Bank of France, which would, in fact, supply the funds (*cf.* the Belgian proposals); the society would recoup itself by a Commission on first discount and on renewal.

But a chief object of the society was to provide for those undeveloped or unimproved properties on which the Crédit Foncier could not lend; the latter can only grant loans on actual existing values; this prevented borrowing in order to improve, for the unimproved property by itself had no considerable actual value. The Crédit Agricole, therefore, was to lend for improvements, *i.e.*, upon potential values, under safeguards for the proper use of its loans (*cf.* Compagnie Foncière and the methods of the Indian Land Improvement Act, especially the special well rules). It was this function which attracted the adhesion of several committee members who were doubtful as to the success of the company and especially as to the intermediaries who were to be the actual agencies for deciding upon the solvency of borrowers; (note the actual failure of these intermediaries and the similar want of success in Belgium).

Other objections were raised by the members of the committee, viz., that it was not the business of the State to enter upon private business, but merely to promote good communications and public works, to stimulate private activity by good laws, to take steps for encouraging agriculture by wise institutions; more than this was to keep the population under tutelage and to accustom it more and more to rely on the State instead of on itself. State subventions are generally useless, as in the case of the Crédit Foncier and in the case of the grants for drainage which were altogether unutilized. Moreover subventions lead to carelessness on the part of the subsidized, while on the other hand, if the society is very energetic, agriculture may suffer from a too great facility of borrowing which might lead the peasant to embarrass himself beyond his means.

To these it was answered that there is nothing so wisely arranged that its use is not liable to abuse; that too great facility in borrowing was improbable, for the society and its agents were likely rather to be excessively careful in lending and would grant loans only to those of admitted solvency; that as for possible carelessness or inertia on the part of the society, that was unlikely since its administration would be that of the Crédit Foncier; that as for the intervention of the State, it is undispensable, since some guarantee was necessary in entering on experimental ways and methods. There was, in fact, no other means; private initiative had done absolutely nothing and evidently would do nothing. It would be a grave error to throw out the advantages which the Government offered not because it was desirous of undertaking agricultural credit but because without the moderate intervention, provided no other attempt was possible.

These reasons prevailed, and the committee recommended the adoption of the bank subject to a further proposal, viz., that the guaranteed interest should be reduced to 3 per cent., and that any payments on this account should eventually be recovered from the society when it should have become prosperous. These amendments were rejected by the Legislature.

It is noteworthy (1) that no exercise of the guarantee was required; (2) that the society eventually failed not from want of business but from want of that very Government control which was provided by the decree and was apparently deprecated by certain members of the committee; the society went off the track into all sorts of ruinous speculations; (3) that the agencies were, in fact, largely a source of the society's failure from their own failures and misapplication of credit; (4) that a similar attempt in Belgium had failed—possibly warned by the French results—no intermediate agencies having been established or accepted by the National bank.

The Bill was accordingly passed, the Government guaranteeing 4 per cent. for five years in case the profits should not be sufficient, profits being calculated as mentioned above in favour of Government. The new society was established as a Joint Stock Company in

1861; its capital was finally fixed at £1,600,000, but its operations were to be financed as usual by the issue of debentures repayable in five years at most; this short term was necessitated by the fact that the loans it was to grant were short-term loans not covered by real mortgages. The organization was that of a governor and two sub-governors—those of the Crédit Foncier—an administrative council, three auditors, and a general assembly consisting of the administrative council and of the 200 largest shareholders.

The society was to be partly a discount bank, partly a loan institution.

Discounts.—As regards discount, it did not discount agricultural bills except at second hand, since it could not know the solvency of the parties; consequently it demanded in addition to the ordinary signature, that of either (1) a banker in correspondence with the society; (2) of an agent under the control or authority of the society; (3) of a Joint Stock Company created under the patronage of the society and united to it; (4) of a local association working under its patronage. The signature of any one of these correspondents is the " second signature " demanded by the society, and should the society wish to rediscount this paper, its own signature provides the third, without which the Bank of France will not look at a bill of exchange.

The above correspondents were selected by the administrative council from bank or business houses or from important landed proprietors; these were located at various agricultural centres, many being at the head-quarters even of Cantons (Unions) or of principal markets and fairs. In this way this great society endeavoured to place itself at the very doors of the agriculturist; in 1870 there were 500 of these correspondents who supplied the central society with paper for discount to the amount of nearly £17,000,000 sterling. In addition to these correspondents there were in 1870, seventeen branches, with head-quarters at the chief towns, and in 1870, in spite of the great war, the discounts at these branches were £28,624,000 sterling.

In 1870 the society discounted bills of ninety days at utmost for about £49,560,000; practically the society was a discount bank and did but little in the way of direct loans, or even in the discount of paper at first hand; it worked through its intermediaries.

Two other societies were founded as annexes, one to open credits for works connected with agriculture; the other to assist transactions arising out of the sale and purchase of agricultural produce. Moreover under the patronage of the society but independent of it, the ' Comptoir Agricole de Seine et Marne ' was formed to provide capital for the agriculturists of that district, by endorsing their bills which were then discounted by the society, thus acting as an intermediary like the regular correspondents of the society; presumably these societies failed with the Crédit Agricole itsef.

Loans.—As a loan association, the society granted credits and loans on pledge and on other special guarantees if so permitted by the council. These, being secured by a material pledge, are granted on the single signature of the borrower, and for a term up to three years with power of renewal for a similar term. Up to the end of 1870 the loans thus granted only amounted to £2,715,840.

Deposits.—The society might also receive deposits up to twice the amount of its paid-up capital, and granted interest thereon at varying rates; on the 31st December 1870, 10,373 depositors had £210,680 on deposit.

Accounts Current.—The society opened accounts current on the usual terms, but did not do much business in this way.

Debentures.—These might be issued for periods of from forty-five days to five years, and of £4 and upwards; interest varied according to the duration of the bond, and was payable with the capital for short-term bonds, and half-yearly for those of one year and upwards. They were readily accepted, and, in 1870, were in circulation for above £3,600,000.

Failure.—This society has been referred to in recent years as an example for India; unfortunately it is not only failed disastrously in 1876, but it never dealt to any extent with agriculturists. In that year the Egyptian Government suspended payment, and this led to the downfall of the Crédit Agricole; on examination, it was found that the society had not only lent £6,720,000 to the Khedive, but that its assets in other respects were exceeded by its debts by above £1,200,000; the result, of course, was bankruptcy, but being backed by the Crédit Foncier, into which it was merged, a series of skilful operations by that society which sagaciously awaited the rehabilitation of the Khedive, resulted in a net loss of only about £300,000, a result due solely to the credit and arrangements of the Crédit Foncier. It was discovered that far from lending to agriculture, the Crédit Agricole had lent largely and recklessly to other industries and commerce, mines, spirit distilleries, weaving factories, &c., and had become a large holder of Turkish, Egyptian and Greek bonds; it had lent to its various correspondents very large sums on very insufficient security and on accommodation paper (billets faux). It had never kept to the limits prescribed by its statutes, and it discounted not agricultural paper but the bills of various dealers in wine, grain, &c.

Now the important points in this matter are the causes which led to this disastrous failure: not the proximate courses, viz., the speculative purchases of low class securities and accommodation paper, but the prior causes which led to this hazardous speculation; why, with the excellent prospects of unlimited agricultural dealings, with large funds and powerfully backed, did they abandon their special legitimate business? In 1876 the then Governor explained in his report that agricultural loans were surrounded with great difficulties and many trickeries; that the arrangements which promised security were found

insufficient even with all the machinery above described as being as their disposal; hence, he continues, they were forced to seek compensation in "other banking and financial "operations." But it is noteworthy that these other operations were extraordinarily hazardous, baseless and speculative, and it is clear that the stern reproaches of M. Christophle, the new Governor of the Crédit Foncier, explained the reasons, viz., that the directors were seduced by the hopes of large gains; that they "delayed not" to desert the path of their legitimate business for adventurous speculation; that their example led away their agents into similar errors, and that it was not want of agricultural business so much as reckless speculation. M. Christophle adds as the foundation cause of these errors, that the Government which was bound by its own decree, * to supervise the working of the society, had done nothing of the sort, and that thus an opening had been given for abuses. He adds that even the Crédit Foncier did not succeed in its earliest years in meeting its own expenses, but was sustained by the subvention granted by the State, while it steadily developed its business, and with it its well-known profits; hence the Crédit Agricole, with its guaranteed interest, could have done the same.

It is, moreover to be pointed out that, owing partly to the higly complicated machinery necessitated in the issue of small loans by a central institution, expenses to borrowers were very high, reaching even 10 or 12 per cent. (M. Jacques Valserres); M. Josseau remarks that the society "failed to penetrate into the rural tracts and to bring relief to the medium and "petty cultivators," who, as in India, form by far the greater part of the agricultural population, insomuch that within six years of its formation Government opened a new enquiry and formed a new commission to study afresh the subject of agricultural credit. The fact is, that the banks who were the society's correspondents lived in the towns, away from the mass of the rural cultivators, unknown to, and ignorant of, them, instead of living in their very midst; also that the agriculturists were ignorant and suspicious of the elaborate mechanism of a grand centralized institution, which, seated in the metropolis, and acting only by agencies generally located in towns, had no contact with the peasants, and could therefore give them nothing in the way of an economic education, for which Popular banks of simple form and action, situated amongst the people and worked by them were the true primary instructors in the art of banking. M. Durand considers that no central institutions could succeed; that it is not funds which are lacking, but the means to employ them and the clientèle to absorb them; it is, in fact, in the *formation of a clientèle* that the difficulty lies and not in the financing of a bank. Similarly Signor Luzzatti considers himself justified from the history of credit in deducing "the law that any attempt by a "Government to form and work central institution of agricultural credit must be a failure"; he believes that such credit must develop from without inwards—not conversely—that is, that small Agricultural banks for the peasantry must spring up locally in the various villages, and that these, as they increase in number and importance, should unite into groups, and these groups again should depend upon some common centre. This point will be developed in the history of Co-operative banks.

It is also stated that the local correspondents, agents, and other intermediaries, greatly failed in the duty expected of them, partly it would seem from insufficient remuneration compared with their responsibility. The branches were generally more successful, but their operations seem hardly to have been agricultural; anyhow the Crédit Agricole absolutely failed in its mission of bringing short-term credit to the agricultural proprietors.

The other societies formed under or with the patronage of this society, all seem to have likewise failed, that of 'Seine et Marne' so disastrously, owing to bad management, as "probably to retard for some time, the establishment of agricultural banks in the districts "where it was most loudly called for."

Society for Rural Credit.—There was another society named 'The Society for Rural Credit,' the object of which was to lend to agriculture on pledge of crops and stock; it began work with a capital of £800,000 and began well, but its director used much of the capital in personal speculation in the society's shares. He was replaced by one who began by obtaining a modification of the statutes to enable him to enter upon ordinary banking operations, on the plea that agricultural loans gave insufficient scope for their capital. By means of credit obtained from the Bank of France, the society lived to accumulate a debt of about £900,000 "on securities chiefly bad and paper mostly fictitious." It was finally wound up and paid ten shillings in the pound.

The Bank of France.—The success of the Bank of France in granting agricultural credit in 'La Niévre' (Nevers) through its branch in that district, has often been quoted in favour of direct action by a large bank. It is quite true that large advances have been most successfully made, and the case deserves examination. It is natural to wonder why success was attained only in one out of 258 places where there are either branches (94) or accepted agencies; the—till late—solitary exception, so often quoted, proves, in fact, the

* The chief provisions of this law are as follows:—

(3) "The society is bound to send every six months a statement of its position to the Minister of Agriculture, 'Commerce, etc., to the Chamber of Commerce, and to the Commercial Court of the District of the Seine."

(4) Moreover, the society must furnish to the Finance Minister, either on demand or at fixed periods to be settled by him, similar statements showing its financial position, its securities and its business.

(5) The working of the society shall be subject to verification by the Inspectors of the Finance Minister whenever he deems it advisable. These inspectors shall be furnished with the minutes of meetings and with all the books, accounts' vouchers and documents of the society, and they shall inspect all securities: provision is also made for a monthly financial statement, copies of which are to be sent to the Minister of Agriculture and Commerce, and of Finance, and to be published in the newspapers.

general rule of the inability of central institutions to lend to small agriculture. There were three distinct causes for the success at Nevers: (1) the advances were not to agriculture proper but only to those engaged in fattening stock for the market, which is simply a rural industry; (2) the fact that only short-term (six months) loans were required; (3) the fact that the Bank Director was a man of energy, capacity and devotion with a minute knowledge of the industry to which he gave credit. The first two reasons require no explanation; the third is the most important of all. M. Girard, the Manager of the Branch, was an agriculturist and economist, as well as a man of business; on joining the branch he proceeded to make himself personally acquainted with all details of the district, so as to be ready to deal with business as it arose. During his numerous journeys for the purpose he was struck with the cattle, and the importance of the breeding and fattening industry. Partly with a view to business, partly from interest in the matter, he obtained admission to the local Agricultural society, acquainted himself with the chief men and with all the details of the fattening and other business, and actually become the secretary of the Agricultural society, taking part in the various committees, examinations of farms, &c., frequenting numerous cattle fairs, and occupying himself with all the details of the industry and of agriculture. Armed with this knowledge, he began his advances, first to the chief men and gradually extending his operations. All that he required was the signature of three men known to him, or of two men with the endorsement of a local bank or broker doing business with the branch The result was a large and perfectly safe business which brought high profits to the bank and in ten years from 1867 saved the breeders a million sterling; not a single bill was ever protested or ever in delay by a single day.

The lesson to be drawn is obvious; detailed local knowledge of men and conditions, business capacity, devotion both to the interests of the bank, to the welfare of its clients, and to the progress of agriculture, are absolutely necessary in the management of a bank if it is to succeed in its full mission of aiding, granting, safeguarding, developing and yet restraining agricultural credit.

As a matter of fact the Bank of France has since succeeded in giving aid to similar rural industry in eight other districts (departments), but in no case to ordinary agriculture; in three of the eight the fattening of stock is the industry; in four, horse and cattle breeding in one, the cheese manufacture. Past experience shows that it is fairly easy to develop rural industries or manufactures, *e.g.*, the making of butter, cheese and sugar, the breeding and fattening of good stock, by means of instruction, by the provision and demonstration of new implements or methods, and by the grant of credit, but that agriculture proper is most difficult to teach or develop in any one of these three ways.

Result.—The result of all efforts at supplying by large banking institutions short-term credit to the mass of medium and petty proprietors in France, is that in 1892, matters are exactly as they were in 1837, except that confidence in such institutions is much impaired. "As regards agricultural credit (Crédit Agricole) we are today," said M. Borie, in 1877, "exactly where we were in 1861. At that date there may have been some illusions even "as regards the society for agricultural credit; to-day nothing remains, neither illusions "nor society." This is no less true in 1892 as regards actual institutions, but indications are not wanting that small Popular banks adopted from the German or Italian systems, and local credit societies affiliated to the Agricultural associations (Syndicates) established by the law of 1884, are likely to develop in France in the near future; some, as at Poligny, Menton, &c., have already started, and will be mentioned below *s.v.* '*Popular banks.*' But in actual fact there is practically nothing for the medium and petty landholders.

It has been shown, under 'Real credit' that the Crédit Foncier of France, the only Real credit institution of the country, has failed to establish relations with the same two classes, and since ordinary banking institutions in France as in most other countries, are only for the farmer on the large or fairly large scale, it follows that, as regards France, the vast mass of the agricultural industry enjoys no form of credit except that of the private and individual money-lender, whether usurer, capitalist, or notary, and enough is known of this to say that it is the most expensive form known. The reasons for the failure have been mentioned *passim*, and will be recapitulated in dealing with proposals for Madras.

Since 1892 there has been a great and possibly successful recrudescence of the subject. Under the head of Popular banks (France) will be found an account of the action of Agricultural associations in forming Credit Unions as annexes to themselves; the pioneer and best known example is that of Poligny. The success of this and some other of the association in satisfying the requirements of agricultural credit, chiefly by re-discounting the bills of members (agriculturists) with the Bank of France, seems to have suggested the idea of utilizing the associations, now more than 1,000 in number, as intermediaries or agents between the cultivators and a great Central bank, organized to meet the needs of agriculture more completely than the Bank of France. It will be remembered that the 'Crédit Agricole' went into other business not because there was no rural business, but because it could not get down to the peasantry; its correspondents or intermediaries were either banks which themselves were not in touch with the peasants, or were paid agents who were not successful in obtaining good business, or went into risky undertakings. As will be seen *s.v.* 'Belgium.' the failure in that country to fecundate agriculture with supplies of capital from the National Savings bank by means of intermediate 'Comptoirs Agricoles' failed because the intermediate agencies could never be established. But in France there is now a vast number of Agricultural associations with about three-quarters of a million of members, largely

drawn from the ' small folk '; the very object of these associations is the supply of necessaries to their members, and since capital is one of the most pressing needs, the associations have already begun to establish credit annexes as at Poligny, Genlis, Saint Florent, &c. These credit annexes are largely furnished with funds by entering into relation with the Bank of France, which discounts their paper, and thus enables a small guarantee capital to provide loans many times greater, on short bills. There are, however, inconveniences: the Bank of France was not constituted for such purposes but for commercial credit; it may not discount paper of above three months' term, and this is insufficient for agriculture, so that frequent renewals are necessary. M. Melinc has therefore drafted a bill, which, with emendations, proposed by the associations and others, has already passed the Chamber of Deputies, and is now (1894) under discussion in the Senate; it is hoped to give the full text in another appendix. The main principle is to establish small agricultural credit ' *par en bas*, ' by means of small local societies of very limited area, in which all the cultivators know each other and each other's status and credit, it being recognized that it is hopeless to seek for the development of such credit at the hands of a great central establishment; the Government is convinced that " the societies of mutual credit can *alone* succeed in solving " a problem (agricultural credit) to which the whole agricultural world waits impatiently " for an answer. " This is important indeed as proceeding from a Government of generally centralizing tendencies. Still, it is necessary to finance these small local societies cheaply and readily, and this is to be effected by establishing a central society of vast credit, which will discount the paper of the local societies, recognizing that the signatories of the bills are all members of the local society, and therefore probably respectable cultivators, while the added signature of the society itself gives the paper the additional guarantee not only of its status but of its reserves and capital, which are, at least partly, charged in favour of the Central bank. This is the probable tenor of the new law which will be dealt with in detail when received. The paper will probably be of considerably longer term, and privileges of procedure will probably be allowed. Probably also the Central bank will be in direct relation with the Bank of France, and will rediscount its portfolio with that bank and thus replace itself in funds.

This is the present answer of the French nation to the problem of agricultural credit, upon which, for just sixty years, it has been engaged; as usual, it has struck out a line of its own differing entirely from the developments of Germany and Italy; as might be expected the method savours much more of the State than in Germany, where the only generally successful methods are those of the Schulze-Delitzsch and Raiffeisen banks, while it seems far more complete than that of Italy—except as regards the Luzzatti and Wollemborg banks—where the law on agricultural credit has never yet brought much success. If successful, it will chiefly be due to the extraordinary and unforeseen success of the *accidentally* constituted Agricultural associations (*q.v.*), and to the fact that such Associations exactly suited the needs of the people.

GERMANY.—In Germany there has been no attempt to provide institutions specially for the ' Crédit Agricole, ' outside of those to be hereafter described under ' Popular banks ' and ' Raiffeisen institutions. ' All credit associations grant this form of credit; some of the Landschaften provide from their accumulated profits and from deposits, funds for this purpose, but though the operations are kept distinct and are open to others besides members of the Landschaften, they affect only persons of known standing, and therefore do not reach the small proprietors. Various State and Communal Land banks as described under ' Real credit ' afford similar aid to a similar clientèle.

The Prussian agricultural report for 1884-87 states that in general the provincial administrations have paid little attention to the development of ' personal credit '; there are, however, exceptions. The administration of the Rhenish province is attempting to combat usury in cattle through the taluk (Kreis) administrations; as a beginning it has lent £200 to the taluk of Daun " to facilitate the purchase of cattle by small proprietors " (*cf.* ' Baden, ' ' Bank of Triers ' and ' Thurgau '). The ' Nassau Provincial and Savings banks (*see* ' Land banks '), which is subordinate to the administration of the Communal-Verband at Wiesbaden, attempts personal credit on its Savings Bank side, by lending on three months bills with two sureties, and on bonds for one year with sureties, subject to repayment by quarterly instalments. The latter class are well suited to small proprietors, and the organization is ingenious; there are numerous local agents, each of whom works with two local assessors (Beirathe) in considering requests for loans; if all three agree they can at once grant loans up to £15; for cases in which they cannot themselves grant loans enquiry is made upon lines and on forms laid down by the bank. At the end of 1886 there were 2,811 loans outstanding for £127,000, of which 113 were below £3,711 from £3 to £7-10-0, 795 from £7-10-0 to £15, and only 738 above £30; the average loan was £45. In 1892 the loans had decreased in number, while the amount was much the same; the end of the year showed 2,164 accounts for £134,370, averaging £62 apiece; only 1,179 were below £15 as against 1,619 in 1886. This Savings bank had also lent £55,000 on pledge in 595 accounts.

The work of the Savings banks in the matter of personal credit is considerable; in 1885 the Prussian Savings banks had lent £279,515 on bonds without sureties, £6,774,780 on bonds with sureties, and £2,538,820 on bills of exchange. The Home Minister in 1886 required all Provincial Ober-presidents (Collectors) to see that all Savings banks endeavour, so far as is consistent with the safety of deposits, to develop this method of lending their funds to " small folk." (For fuller description *see* ' Savings Banks.')

In *Baden* agricultural credit is obtained almost entirely from money-lenders at high rates, but there are Communal associations for helping peasants with loans to buy cattle, which, until the loans are paid off, remain the complete property of the association, so that, in case of failure to pay arrears, the cattle are simply taken possession of without any legal delays or expenses. The loans must be paid up within a year, and meanwhile the borrowers must insure the cattle. These institutions serve those who trade in breeding and fattening cattle, not the regular agriculturist.

WÜRTTEMBERG has—save for its Popular banks, chiefly of the Raiffeisen type, left the field open to the money-lender as regards agricultural loans to peasants. But this kingdom has Communal banks, self-administered and independent, but under the official supervision of the head of the district. They borrow under the guarantee of the commune and lend at 4 or 4½ per cent. No loan can exceed £8-6-8; repayment is made very easy, and may be by instalments or in lump.

AUSTRIA-HUNGARY.—In this empire there is little provision for 'Le Crédit Agricole' for the small farmers, other than the ordinary banks and the usurers who are described as "vampires sucking the very life blood of the peasantry and cunning in evading the strictest "laws," such as that recently (in 1881) enacted against usury. Associations copied from the German Schulze-Delitzsch and Raiffeisen societies exist, but the latter are few in number (246 in 1891) and the former are largely urban. There are, however, in Hungary, Communal Loan societies started since 1887 and numbering 47 in 1889; these are affiliated to a central society at the district head-quarters; these are probably similar to those described under Baden and Württemberg.

BELGIUM.—In this country the attempts to found agricultural credit are particularly interesting. The same difficulties, as in other countries, are here found, and the money-lending class, not however so usurious as elsewhere, owing apparently to greater competition, and to the fact that landlords assist their tenantry, is the general resort of the agriculturist. On the fall of agricultural profits, owing to foreign competition, this source decreased, and the farmers had recourse to the bankers, who, however, in general assist only men of some status; moreover, the banks could not accept agricultural paper, since the National bank is debarred from discounting any save commercial bills, and ordinary agricultural paper is not "commercial" in the European (continental) sense of the word. As in France, so in Belgium, the matter has for many years been discussed by the State Councils, Agricultural societies, economists, publicists, &c., and while some have placed their faith in Mutual Credit associations, others have demanded legislative assistance. Only a few of the former societies have been started, and these chiefly urban, but the Government has acceded to the demand for State intervention and passed an important law in April 1884. The law is carefully drawn and based on excellent theory, but so far has had no practical effect.

This law, given in full in another appendix, authorizes the General Savings bank to effect agricultural loans by means of intermediate offices (Comptoirs Agricoles). As will be explained in detail below, *s.v.*, 'Savings banks,' the Belgian General Savings bank is administered as a separate institution by the National bank, which utilizes the savings deposits in fructifying trade and commerce, whether by short-term loans and discounts, or by long-term investments; at the same time the Savings bank has a State guarantee as regards the depositors and uses the Government bureaux and post offices as its own offices Hence the small savings of the villages are drawn into the bank by the State guarantee and yet do not go to the State coffers, but to the National bank, which, as the centre of commercial and financial affairs, redistributes them to trade. The object then of the new law was to send the streams of capital into the villages to benefit agriculture, which up to that time had received back nothing of its savings.

Now it is impossible for a great credit institution to grant small loans direct; it cannot know the status, character, or credit of the ordinary agriculturist, nor does the latter know anything of the bank or its branches in the towns. Hence some local intermediary was necessary, and this place was to be filled by the Comptoirs Agricoles; these local agencies would receive and examine the proposals for loans, report on them, and receive, as commission, a proportion—up to one-fourth—of the profits; they were, however, to be jointly responsible to the bank for the loans issued, in case of default by the borrower, and were even to give substantial sureties (mortgages or pledges) which could be directly sued upon by the bank in case of any loss. The plan seemed excellent, as it combined all the advantages of a powerful central institution, with a State guarantee, distributing funds collected from all parts to the places most needing them, and yet possessing local knowledge and influence through the Comptoirs. Moreover the Government, besides granting special privileges contained in the law by way of providing complete security to lenders, and cheap capital to borrowers, announced its willingness to devote £600,000 for the purpose in 1885, presumably from the Savings bank fund.

All this has been of no avail; nothing has been effected in practice. Up to 1889, only four Comptoirs had been established, and during that year only £42,400 were granted of which only £10,160 were in sums below £400.

The reason is to be sought in the enforced joint liability of the members of the Comptoirs; it is hard to get persons to take up difficult work for the benefit of classes below them, and this difficulty becomes an impossibility when the risks of *unlimited liability* are added. Few people care to go out of their way to hunt up small persons estimate and report upon the value of their property and their solvency generally, receive funds, look to their distribution

and their subsequent collection, and undergo the risk of having to pay up the loan themselves, all for the sake of a few shillings profit. The principle of "solidarity," so general in Germany, arising partly out of Teutonic customs and partly out of the fiat of Frederick the Great, is foreign to Belgian habits, and the result was failure.

Even had the local distributing unit been an association with or without the further intermediary of a Comptoir between the associations and the bank, the plan could hardly have succeeded; the 'village association' would indeed have supplied the local knowledge and done the local work but—*quis custodiet*. The grand principle of personal interest in economy and safety would have been wanting; the funds would have been foreign funds, and the association interested therefore rather in getting as much as possible for their co-villagers and friends than in seeing that money was needed for productive purposes and was spent for that purpose; without a direct interest in the funds the association would be a mere spending society and would involve the bank in difficulties, since money spent unproductively or granted beyond due security, spells ruin, and is a social and economic injury; agricultural, as other forms of credit; is useful or injurious according as the funds supplied are used productively or extravagantly. There is only one method of creating in the members of an association personal interest in expenditure, viz., that of liability for, or ownership of, the funds; the former is the principle of unlimited liability the latter that of the joint stock or co-operative ownership, and the two combined are the most powerful instrument of true credit yet discovered; only Germany has yet attempted generally the double employment. The only other successful method in which a Central Bank has dealt with small folk though intermediary bodies, is in the Swiss and Russian loans through the Communes or Mirs. But even these banks only lend on land mortgage and do not grant personal loans, and their power to utilize the communal organizations is in the fact that these are corporations holding joint corporate property (*cf.* the Madras Mirasi system) and are responsible for any losses or mis-statements. Moreover, every person in the commune is, in Berne at least, responsible in all his property for communal debts. (*See* chapter on 'Real Credit' *s.v.* 'Berne' and 'Russian Peasants' Land bank.')

The Belgian plan is, however, fruitful in suggestion, notably in the employment of savings through the National bank, and it is possible to conceive plans for the due utilization of the funds in agriculture through Local Credit associations as will be shown hereafter. And it is not yet certain that even the present plan may not succeed; five years is but a short time for the organization and acceptance of a wholly novel class of rural institutions.

It remains to be stated that since the General Savings bank is under the general supervision of the Minister of Finance, its arrangements with the Comptoirs are also subject to his approval.

The loans were to be for different terms and repayable in lump or by instalments. The interest were to be 4 per cent., of which 1 per cent. would be devoted to remunerating the Comptoirs.

But the law has also another aim, viz., to facilitate loans in general to agriculturists, and, for this purpose, not only has the privilege of the landlord for rent been defined and circumscribed, but a privilege * over the agriculturists' stock is granted to any lender—Comptoir, bank, or private person—who chooses to lend without actual receipt of a material pledge (sans gage). The landlord's privilege over the stock is limited to a demand for the rents of three past years and of the current year, with damages arising for non-fulfilment of contract. This limitation gives to agriculturists a larger basis for borrowing, while the grant of a privilege for the loans equally facilitates his credit by assisting the lender to recover. The privilege is partly that of preferential claims, partly that of speedy and summary procedure, viz., that possessed by the landlord. The privilege only takes effect upon due registration and the debt bond must specify the articles subject to the privilege and their value. It will be seen that the privilege is practically that of a pledge without delivery, and is comparable to the effect of an English bill of sale.

The original draft of the law granted the above privileges only in case of loans "made "in the interests of agriculture," these "interests" being defined in the law itself, which also provided that the object of the loan must be entered in the debt bond, and the fulfilment of the object proved by proper receipts; any failure to use the funds properly was punishable by the Penal Code. The provisions, however, which were evidently based on the presumption that only the useful and productive employment of credit should be privileged, were struck out in discussion, and the privileges are granted for all loans made *to agriculturists*.

Privileges are also given in the way of stamp duties; the contracts between the bank and the Comptoirs are free of duty, while those on loans granted on the sole basis of privileges, are reduced from the usual 1.40 per 100 to 0.30 or 0.60 according to the amount of the loan; duties on receipts for payments are also reduced; certain other taxable documents were freed from duty, and registration charges reduced to a fixed and low fee.

* The word "*privilege*" in European (Latin) civil law means a preferential charge which takes precedence even of "hypotheques," which latter include mortgages and other liens. These privileges are of different classes, *e.g.*, privilege of claims of the State, of the landlord for rent, of the purveyor of necessaries for maintenance and for the working of a farm, of the seller of an estate for the price paid, of the lender of the sale price, of death-bed charges, &c., these take rank according to the law, but all take precedence of non-privileged claims. The above special privilege or charge takes rank, apparently next after that of a landlord for rent, which seems to be a first charge.

Another proposal to organize Agricultural credit was made on the lines of the 'Union du Crédit' of Brussels; this has no regular shareholders but only members, who alone can borrow. Each member on entry subscribes for one or more shares, and deposits 5 per cent. of the amount; he can then borrow on a bill—apparently with two sureties, also members—up to the full amount of his shares, and whether he borrows or not, he is responsible for the society's debts up to the same amount. The paper held by the society is rediscounted by it if money is required. Apparently the Entrance Committee can refuse admission to candidates, and regulates the number of the shares—in other words the potential credit and responsibility—allotted to the candidate. In the similar bank at Vaud, Switzerland, a half-yearly estimate is also made of the solvency of members, and if necessary the number of their shares is reduced, so as to guard against risk from members of deteriorating status or credit. It was proposed in Belgium to extend these arrangements to Cantonal (village group) societies, members being agricultural instead of mercantile; a Central Union to supply the local societies with funds, and to issue bank notes being a part of the scheme. Nothing has been done in this way, possibly on account of the bank-note suggestion being considered an integral factor, whereas it was non-essential.

An attempt to ruralize the urban Popular banks (Mutual credit) has also failed, but the reasons are not known; there seems to have been no sufficient personal initiative; in these matters it is usually the "one man power" that effects real results.

The beginnings of rural credit are now visible in the action of the Agricultural asociations; these will be described, *s.v.* 'Agricultural associations,' since Germany, France and Belgium are moving on similar lines in this matter, and there is promise of real progress herein.

ITALY.—This country is specially interesting since Government has attempted by two special laws to encourage the establishment of the 'Crédit Agricole.' That of 1869 was an attempt to found it by authorizing special establishments to which were granted privileges and which were regulated by stringent rules. The privileges consisted in the power of summary sale of goods or securities held by them in pledge, a considerable reduction of stamp and registration duties, and permission to issue special bonds. The idea was to encourage the formation, not of one central institution, but of several smaller ones, each suited to the particular conditions of its neighbourhood, cognizant of the wants and position of its various clients, and supported by local energies; these would also retain and distribute in their neighbourhood the much needed capital drawn from the hoards of the thrifty, instead of allowing them to be drawn off by a Central bank or, still worse, by a State Department.

The law was badly drafted, and whether from this or other circumstances, entirely failed of effect. It proposed to grant privileges to lenders and to some extent did so as stated above, but on the other hand, it actually deprived lenders of rights granted by the general law. It prohibited the discount of agricultural bills if they were drawn for *more* than ninety days while the ordinary law makes no such limit as to commercial bills, and, as is well known, agricultural paper requires terms longer than usual. The bills might indeed be successively prolonged up to one year, but this of course entails much extra trouble and expense. Similarly, cash credits could only be granted for one year, and that only on the deposit of land mortgage debentures and on goods deposited in bonded warehouses. Why the term was so limited, why the securities accepted were so restricted—not even Government paper being admitted—and why the deposit of produce was required when the warehouses for storing it did not even exist, are problems unsolved.

Funds were to be procured by the issue of special debentures payable to bearer and at sight; by bills to order transferable by endorsement and also payable at sight; by receipt of deposits on account current payable by cheques. All these were payable at sight, so that not only was the bank debarred from receiving fixed term deposits, but while its loans were to be for terms of considerable duration, all its funds were payable on demand. The first class of debentures could only be issued on deposit of Government 5 per cent. paper up to one-third of the paid-up capital, and the total value of all bonds, accounts current, &c., could not exceed three times the amount of the metallic reserve. In order to ensure the observance of these rules, a weekly statement was to be sent to the Minister of Finance.

The privileges were considerable; in case of default the bank would give a simple notice to the defaulter and five days afterwards could proceed, without further formality and without prejudice to any other action, to sell the goods or securities given on pledge to them. In lieu of all stamp and registration duties, which in Italy are heavy, a single stamp duty of 1 lira (10*d.*) was levied on all bonds between the society and its clients, and on the transfer of bonds to order, while the society's bonds were subject to a tax of only 0.01 per cent. (one centime per 100 lira). No attachment was allowed of any sums held by the bank on account current with their clients, or of any sums proceeding from the loans or credits granted by them.

The law had little practical effect, the only really successful society being that of Bologna, which was a branch of the Savings bank of that city. This did a good business and its profits were further employed in various operations for the encouragement of agriculture and especially for the improvement of cattle. The success of this society is said to be due to the fact that the great Savings bank not only supplied it with the

necessary funds, but administered it almost without cost. It would seem, therefore, that good and cheap administration and plentiful funds will achieve success even under a poorly drawn law. But in spite of its success, the President of the Savings bank did not favour the extension of the system contemplated by law; instead of a comparatively few provincial or district societies, he preferred a large number of petty country banks, gathering in local savings, granting loans in their neighbourhood, and supervising the employment made of the loans granted. (M. Leon Say.)

The failure of the law was due largely to its having been drafted and passed without sufficient knowledge of the conditions and needs of agriculture and the position of the agriculturist; it would probably have been different had it succeeded instead of having preceded the celebrated 'Inchiesta Agraria' which has poured so much light on rural Italy. For many years the reform of the law was discussed, and in 1887 a new law, modified in 1888, was passed. This was more elaborate and will be found in full with its administrative regulations, in another appendix. The leading ideas of this law are to grant to banks generally and not to special societies only, the right of issuing agricultural loans with certain privileges, and to all borrowers an extension of their power to pledge their property by limiting the rights of certain privileged classes. In place of bonds payable at sight, privileged agricultural debentures (Cartelle agrarie) guaranteed either by pledge or by the special privileges hereafter mentioned, are to provide funds.

The first chapter of the law regulates the grant of privileges to lenders on pledge, which, for this purpose, are banks and societies only; no private lender can avail himself of the privileges. This restriction is obviously intended against the usurer, who flourishes in Italy perhaps more than in any country in the world. The chief privilege is that over the crops of the current year, and over the produce and stock of the farm found within its limits. As in the Belgian law so in the Italian, it is the status of the borrower and not the purpose of the loan that determines the privilege; it differs however in granting a general privilege over all goods of the above class, whereas in Belgium they must be specified in the bond. The contract must be in writing and registered in a special register; registration is gratuitous and the certificate of registration is similarly free of charge.

By the same law the position of a landlord as to privilege is narrowed and deferred, viz., to two years' past rent, that of the current year and that of the year to come. In Italy the rights of a landlord under the general law were large and undefined, and it is common for the landlord to demand his rents wholly in advance for the coming year; this itself accounts for much of the usury.

Section 15 is noteworthy merely by reason of its limiting interest to a maximum fixed periodically by the Minister of Agriculture in consultation with the Minister of Finance.

Section 14 grants certain fiscal privileges: section 16 allows a mark to be used for a signature for small loans, and section 17 denies to cultivators the power of contracting themselves out of the law; all contracts contrary to the law are null.

The second chapter relates to loans on mortgage for agricultural improvements, and is really a law for the development of Land Improvement banks; the provisions are very different from those relating to loans granted on a privileged pledge of moveables as in chapter 1; *e.g.*, all loans to be privileged under chapter 2 must be expended on certain defined and purely agricultural needs, such as farm buildings, drainage and irrigation, digging of wells, plantations, levelling of lands, and road-making, and all operations declared by the Board of Agriculture to be agricultural improvements. This is similar to the Belgian law, but whereas in the former, positive proof of proper outlay is demanded, the presumption in the Italian law is in favour of the borrower, subject to proof to the contrary. Other conditions are, however, demanded, viz., that the loan shall be for at least three and not more than thirty years, that it shall be payable by instalments (amortization) and that the loan amount shall be paid over to the borrower only in fractions according to the progress of the work; this latter is a most important provision. The rate of interest is to be that fixed by the Minister of Finance. The limitation as to duration seems unnecessary and that with reference to interest doubtful. All stamp duties and registration charges on all documents directly connected with these loans are reduced to one-half of the ordinary duties and charges.

Section 20 provides for cash credits covered by mortgage, a useful innovation.

All operations under the second chapter are ordinary and open to all the world, but it is only banks or societies that enjoy the privilege granted in section 21 of paying only half the ordinary stamp and registration and mortgage duties upon all bonds relating to operations under the chapter. This is no small privilege, for it is estimated that, especially in short-term mortgages, the charges are ordinarily so great as to swallow up all profits from the loan.

A further noticeable provision is that of a privilege granted to the lending bank over the "plus value" acquired by the mortgaged property by reason of the operations effected by the loan. This is a well-known privilege in Land Improvement Acts, whereby the loan takes precedence of all—even prior—mortgages.

Certain other sections permit corporations, such as Communes, to assign part of their taxes or levies as securities for loans for agricultural development.

The third chapter treats of the banks and societies which are to be considered as Agricultural banks and entitled to the above privileges. It seems that all regular banks,

Credit associations and Savings banks come under the privileged category, but the privilege of issuing agricultural bonds (Cartelle agrarie) must be obtained specially by a Royal decree. These latter are issued either against the privileged loans, regulated by chapter I or against the mortgages of chapter II; apparently half the capital at least must be thus engaged.

Section 31 especially provides for the issue of bonds by associations of proprietors holding lands worth in the aggregate at least £120,000; this is obviously in imitation of the German Landschaften. Sections 38 and 39 give to the banks of Sicily and Naples and to the Monti di Pietá, power to issue agricultural loans; these will be mentioned in the section on 'Monts de Piété.'

To sum up, the new law desires that all recognized Credit associations or regular banks should undertake the work of agricultural credit, but it seems still imperfect though introducing excellent reforms and principles. In 1890 it was said that it had not yet been put into operation owing to financial difficulties.

SWITZERLAND.—As explained under 'Real Crédit,' Switzerland enjoys facilities for credit which err perhaps in being too considerable; the report of its own Federal Government, as well as of the foreign Consuls, show that unlimited access to credit may be as dangerous as a defective supply; a nation is not *necessarily* bettered either economically, socially or individually by facile credit, but only by the properly guarded and productive employment of it.

The 'Credit Agricole' is not specially provided for in this country; the ordinary banks, of which there are an immense number, probably about 900 for about three millions of people or a bank for every 3,250, grant mortgages readily and cheaply and deal also in all other operations of banking. The Savings banks, for instance, assume very different functions from the institutions known under that name in England; they receive deposits, open accounts current, and otherwise act as ordinary banks, the Savings deposits, properly so called, very often bearing a very small proportion to that of deposits; in fact many of the Swiss banks are petty joint stock companies of merely local importance and with a share capital often less than £400; hence Switzerland affords no special facility for the study of the 'Crédit Agricole,' and its banks other than the land banks or land bank operations already described, will be studied in the next chapter; all that need here be pointed out is that the extreme facilities for cheap rural credit in Switzerland are due to the universal development of these petty banks which gather together, each in its own locality, the petty savings of the vicinity and distribute them in turn to supply the needs of its immediate neighbourhood. They are thus brought to the very door of the agriculturist; unlike the great banks of other countries which are seated in towns and centralize, for the benefit of commerce and trade, the funds which they draw from throughout the country and which by their location are *ipso facto* inaccessible to and ignorant of the rural borrower, these petty banks content themselves with a clientéle from their immediate neighbourhood and despise neither petty deposits nor petty loans. They widely differ, however, as will hereafter be seen, from the German Popular banks and Credit unions, in that they do not use co-operative or mutual credit so much as joint stock credit, a distinction which, as will be elsewhere shown, is of social and economic importance, in that joint stock credit cares little for the use which is made of its loans, but looks chiefly to the security offered and to the results in dividends, whereas mutual credit, as understood and practised in Germany and Italy, has in view the due and productive employment of its loans and the benefit of the borrowers as first considerations, and its institutions are expressly organized with those objects; in Switzerland money is the chief object, in Germany the man.

ROUMANIA.—A special law has been passed with a view of favouring the institution of Agricultural banks. The chief provisions are that in each district a society for agricultural credit should be established, so that cultivators and agricultural labourers may obtain funds for their industry; the societies are associations of shareholders or rather subscribers, each share being personal. The foundation capital of each office is from £6,000 to £12,000, two-thirds being supplied by Government and one-third by the district, *i.e.*, apparently by the district administration. These subventions are repaid gradually as shares are taken up; profits are shared in the ratio of the capital supplied. Shareholders must either be agriculturists or agricultural labourers: the administration is with a director elected by the general assembly who is controlled by the three Commissioners, of whom two are elected and one is appointed by Government. Each share has a vote but not beyond five. The operations of each office are (1) discount of agricultural paper; (2) loans upon pledge of produce and stock, (3) receipts of deposits and savings from agriculturists, (4) advances to agriculturists upon Government paper. Loans must not bear interest of above 7 per cent., nor exceed nine months' duration. Loans are granted upon bills to order guaranteed by two sureties, both of whom must be agriculturists. The pledge of produce and stock is considered complete without delivery, but requires entry in a special register kept in the commune; in case of default such property can be sold without any application to Court and under the conditions which govern the procedure for arrears of State revenue. Loans obtained from the above offices are free of stamp duty for the first five years after foundation of the office; each office is entitled to establish agencies throughout its district. From a statement of objects and reasons prefixed to a new bill, apparently of 1891, it appears that the law of 1881 was very defective in its organization of these loan offices: from 1881 to 1887 there were a dozen amending

Acts. But the real difficulty was that the banks were neither State institutions nor private, and it was found impracticable to establish them under the peculiar conditions imposed. The real reason seems to be that Roumania can no more effect personal credit by large central institutions than France, Belgium, Italy or any other country. The shares were not taken up so that the amounts advanced by Government were not returned, and these amounted to about £800,000. The new bill provides for a single central State institution with a bank in each district head-quarters. There is to be a large and fairly well-paid staff both at the Central bank and at each bank, and it does not seem probable that the bank can pay its way or that it will work satisfactorily in so far as it expects to lend short-term loans not exceeding £40 to the small agriculturist.

Summary.—From the above sketch of European attempts to found chattel and personal credit (Crédit Agricole) by means of special laws and special institutions, it will be seen that there has been, so far, total failure; in France which has attempted it in the most scientific way by a vast central institution allied to the flourishing Crédit Foncier, there is now no such thing as an organized Crédit Agricole. Belgium failed with a central institution as France failed, but not for the same reason; Italy has found that the substitution of a few Provincial banks for one central institution did not cure the radical defect in the system. Germany and Switzerland have not attempted special institutions under privileged legislation for this form of credit; the work in Roumania is not merely of doubtful success, but appears to be very costly to Government. Economic history has no examples for guidance in the matter of special central institutions for chattel and personal credit.

It is of the highest importance to try and find out the defect or defects which have led to this failure; the attempts made were not the visionary, ill-conceived, crude proposals of arm-chair economists or philanthropists, but the sober and thoughtful attempts of Governments, statesmen, financiers, and business men to supply a long-existing and loudly-crying want, success in which attempt would mean not merely prosperity to agriculture, but profit to the promoters.

The French failure was proximately due to the rash and misguided attempts of the managers of the Crédit Agricole to reap dividends by speculation, but why, when there was such a demand for capital near at home, did its managers require to go so far afield as Egypt, and why lend their capital to industries, only remotely if at all connected with agriculture? Why, but for the fact that they could not get their capital down in petty loans to those who needed it on the petty farms of France itself. The *crux* of the difficulty is this; if capital is to be lent to the small peasants, the credit institution must be at his doors, not merely because he cannot and will not go to the towns to borrow, but because without intimate knowledge of the individual borrower, money cannot safely be lent to him, and the process of inquiry, if useful inquiry is possible, is so expensive that small loans become much too dear for general use. It has been found practically impossible for the Crédit Foncier to lend to the small peasant, though his farm is a tangible fact, and can be surveyed and valued, and affords a material basis for a loan; if it is impossible, then, to lend on the mortgage of a small farm, how much more impossible to lend on the mere general status and credit or possibly the stock of the small farmer. Yet that is what is meant by the Crédit Agricole, and it is obviously impossible for a central institution so to acquaint itself with the millions of individual borrowers as to lend in safety; the 500 agents of the Crédit Agricole were as nothing amidst 5,000,000 peasant holders. The dilemma may thus be stated; if the central institution has few agents, it can never reach the peasant and must die of inanition; if it has many agents, the cost and difficulty of payment and supervision are insurmountable; among so many there will be many dishonest or careless or weak; the losses from fraud, insufficiency of security, and lack of business capacity destroy the chances of the best devised institutions. These facts appear to have led the Crédit Agricole into the wildest investments of its funds, and the want of proper agencies apparently drove or permitted the managers to speculate with their funds either to retrieve their losses or because funds were idle. The Belgium plan failed *ab initio;* the Comptoirs (agencies), which were to be the responsible intermediaries, declined to form themselves, and practically no business was done. The Italian plan similarly failed, for even Provincial banks are far too large to deal direct with peasant clients and require responsible local agents, and the proof that this is the cause of failure, lies in the new law itself, which privileges any bank or credit institution that take up the business. Here then we have three great attempts, all by institutions in *esse* or in *posse*, specially privileged and yet unable to bring capital to the peasant farmer. Moreover, as will be presently shown, central institutions are improper agencies for rural credit; if by these means, the most facile credit were available, they would be improper, for what shall it avail a peasant that credit is cheap if the result to him is only deeper indebtedness and unproductive extravagance? It is in the intelligent guarded and directed use of credit that the safety of the peasant is to be sought and not in mere facility; it is in the employment of credit for useful and productive ends, in the development of prudence thrift, self-respect and honesty, in promoting, not in destroying ideas of the sanctity and inviolability of contract, that the true province of credit is found, and in what way can a central institution looking only to the security of its money and to its dividends, and working by mere paid agents, effect these developments in the peasant whom it only knows by numbers in its registers and whom it regards solely as producers of dividends?

With certain exceptions there is none so far, but the money-lender, who has brought capital to the peasant, and he has fulfilled one essential of successful credit in going

down into the village and dwelling among his clients; as regards the higher essentials, he is utterly wanting, for the gravest of charges against him is that he is directly interested, all over the world without exception, in bringing the peasant into his net, and that he is the cause, direct or indirect, of improvidence, dishonest dealing, and careless expenditure; at the best, it is not the borrower's but the lender's profit that is sought by him.

CHAPTER VI.—POPULAR BANKS.

UNDER this head will be described those classes of credit institutions which are devoted solely neither to Real credit, nor to the 'Crédit Agricole,' but which deal simply with credit such as they are able to supply. It is not intended to discuss ordinary banks, but only those particular classes of banking or credit institution, which have sprung up to meet the wants of the poorer classes, whether urban or rural, and which seem to offer a solution of the credit question in its economic, social, and normal aspects. Such are principally the co-operative credit institutions known generally as 'Popular banks' in Germany, Austria, Hungary, Italy and Russia, the mutual credit institutions of Raiffeisen and Wollemborg in Germany and Italy, respectively, certain other Co-operative banks, a few Commercial banks, and the Central banks for linking Popular banks, &c., and supplying them with funds. The first two classes are by far the most important and suggestive for Indian needs.

It is to these banks that attention is particularly directed, for it is on them chiefly that the hope rests of popularizing an organized system of credit. It is these banks which, as the Popular banks of Schulze Delitzsch in Germany and Austria, and of Luzzatti in Italy, are giving credit to the amount of at least £250,000,000 sterling to small tradespeople, artisans and agriculturists; which, as the rural loan societies of Raiffeisen in Germany and Wollemborg in Italy are extending credit to and greatly developing the character of the purely rural classes; which in the form of the 2,300 so-called Building Societies—really Co-operative or Mutual banks—in England have about 600,000 members and supply immense credit on real security; which in America, in several thousand similar Co-operative banks, are said to be a financial factor of increasing magnitude, likely soon to overpass the Savings banks, and to form the chief means of granting small loans on Real credit. It is these which supply not merely credit but credit to the very smallest folk. They not merely supply popular credit, but they have democratized credit; their credit is not merely not that dangerous form of easy credit which often ruins, but is strongly educative. It not only does not demoralize or enslave, but directly and indirectly stimulates thrift, foresight, order, business methods, temperance and morality, industrial improvements, habits of mutual association and self-help.

These banks have not merely popularized but democratized credit, which proceeds from the people to the people by the people. Finally, it is this form which has found a beginning in the hundred and odd Mutual Funds (Nidhis) of this presidency, a form of society, which, originating probably in the indigenous Chit association, has developed by the adoption of the English Building Society rules and principles.

It will be seen from the mere names of the above classes of institution, that one central idea is common to all, viz., that of co-operation or association. That principle is, of course, at the base of most modern banking societies. The Joint Stock bank is the leading feature of recent banking enterprise, and is the latest development from the rudimentary system of the private money-lender working with his own funds, who subsequently developed into the partnership banks which still share largely in this business, especially in country places. But there are two radically different forms of association, as has been repeatedly indicated above; the one is the association of lenders or capitalists whether small or large, numerous or few, who bring their funds together in order to earn the largest possible profits upon them. The primary aim of this form of association is large and safe dividends, any other object being secondary. But the other form is that of the association of borrowers; although in the best types of this form capital is subscribed by every member, the object of the society is profit, not through dividends on the capital, but through personal use of the subscribed capital and other capital thereby attracted; it is the profit of the members not as lenders but as borrowers that is sought and dividends therefore are not only not the object of the society but are opposed to its aims, since high dividends mean unnecessarily high interest on the loans. Many societies, therefore, rule out all dividends, devoting all surplus profits, after the reserve is supplied, to the reduction of interest, or to works of public utility; in others a limited dividend of (say) 5 per cent. is allowed, especially on foundation capital; dividends are expressly recognized as temptations to forget the primary object of the societies. Hence, it will be seen that in the first form (lenders) the interests of borrowers and shareholders are opposed, the former requiring low interest, the latter high dividends; in the latter form (borrowers) the interests are identical, since shareholders are borrowers and require low interest first. The two classes of institution may almost be defined respectively as associations of money and associations of men.

This distinction of interests, radical in itself, is not however the only one, perhaps not the most important. It is almost universally the case that joint stock companies are formed on the large scale, establish themselves in a large town, and work from that centre outwards, except perhaps in America where the peculiar institutions known as National banks establish themselves in every small town as independent institutions, or in Switzerland, where the country is in miniature, and "Governments" exist for areas

with the population of a very small taluk, and where in consequence small banks start up in every village. But in all other countries joint stock companies for credit purposes take their rise and first establish themselves in considerable towns, one chief result of which is a large addiction to urban business, whether mortgage or personal, but equally commercial and industrial, and, finding sufficient employment for capital, these do not exploit the rural tracts. Hence it results that, except in England where the rural clientéle are largely farmers of—to Indian ideas—considerable capital, or country gentry, the countryman is left without banking facilities.

Again, even if such banks grant credit to the peasantry, they are lacking to a great extent in the educational and even guardian power which the country bank should possess. It is the English country bank, not the great Joint Stock associations with numerous branches, which have so long developed and assisted the English tenant farmer.

Hence in the history of rural credit it is noticeable that no banks have reached the peasants proper—Switzerland and perhaps Scotland excepted—unless they were small local institutions, usually co-operative or mutual; even the Savings banks, when they deal in credit, have only partly fulfilled this rôle unless they were also associations of the above character, or developed them by their side as branches or offshoots. Indeed, except in Scotland, there was up to 1850 practically no banking credit at all for peasants, and it is solely owing to the genius of German philanthropists who were also business men, that such credit is now available in Europe, and combines with credit, an education in many of the finer social and economic faculties.

It is then under the form of co-operative credit and not of joint stock companies, of associations of borrowers, not of societies of capitalists, that rural credit is generally found in Europe.

These banks are numbered now by the thousand; with their aid journeymen become masters, labourers become owners; hopeless debt is banished and the usurer driven out; agriculture and industry developed, and the villages in the poorest tracts become prosperous; the illiterate man turns towards education and the drunkard is reclaimed; the middleman is eliminated; the peasant gets full value for his produce, and pays his rent with ease; village life is stimulated by associated action and by the business education of the bank; punctuality, thrift and mutual confidence are taught; litigation decreases and morality improves; self-help and not that of Government or of philanthropists is the main-spring of action; activity takes the place of stagnation and routine; associated action replaces distrust. This is true, not of a few isolated villages, but in thousands of cases. There are several thousand Co-operative banks in Germany alone, a vast number in Austria-Hungary, and about 900 in Italy; the business done is enormous and in sums extending downward to bills of less than ten shillings, while it is on record that these societies form everywhere centres of economic and even of moral progress. These are sober facts and not coloured pictures of the imagination; they will be amply proved when describing the several classes of banks. For these banks are not all of one type; in Germany there are the Schulze Delitzsch and Raiffeisen societies with their offshoots; Italy has developed a type of its own, and Austria-Hungary, while imitating those of Germany, has not made unlimited liability a necessary principle. They appear to be capable of assuming various forms according to the idiosyncrasies the several countries; only in all there must be the common foundation principles of thrift and honesty. They are of great simplicity and are started and managed by the people of small villages. There are no losses when the directors keep the fundamental rules of the society, and avoid speculation or doubtful loans for the sake of extending business or obtaining high interest, for they develop an amount of devotion on the part of their members which prevents them from allowing the banks or their fellow members to lose by their default; the clientele is of the lower middle and lower classes both urban and rural, tens of thousands of members possessing absolutely no property except their honesty, prudence and capacity for work.

SCHULZE-DELITZSCH LOAN SOCIETIES.

History.—Herr Schulze-Delitzsch was a Village Magistrate who, having studied the working classes of the towns and rural tracts, was called to the Prussian National Assembly in 1848. Subsequently troubled by party intrigues he resigned Government service and devoted himself with but slight pecuniary resources, to the elevation of those whom he saw oppressed not merely with want of wealth but with want of the power to perceive, to strive after and to attain better things, a higher social, mental and moral development. Be it remembered that the work of Schulze-Delitzsch was in its aim no less than in its results essentially educational in the highest sense of the word and not merely material. The country and the people were habituated to live under Government wardship, and to look to the State for all improvements and for all deliverance from difficulties and misfortunes. Schulze-Delitzsch saw that it was essential, if the nation was to become worthy of the name, to turn the masses towards self-help, and to accustom them to rely on their own efforts and their own initiative to work out their national salvation. He was the more compelled to this as the habit of leaning on the State for help in every difficulty, of blaming it for every misfortune, the habit of submitting to State guidance regulations and control in all the affairs of life, was receiving fresh development from the growing socialism of the State, which, in the hands of Marx, Lassalle, &c., was assuming its modern form. Schulze-Delitzsch conceived this to be a radically mischievous development, and he spent his life in combating it, not by words only but chiefly by his

marvellous skill in developing into solid fact the idea of co-operation. He saw, perhaps he was compelled to see, that powerful as is the pen, it is *per se* wholly insufficient, even powerless, to act on the classes who form the mass of the nation, and whom it was his aim to develop. Hence, while incessant in writing, lecturing, exhorting, it was in the creation of successful models by the power of his own individual influence and within his own immediate sphere, that he chiefly trusted. Neither did he attempt a vast agitation nor the institution of a grand society to drive all human ills out of the State; he was content to lay the foundation of a humble village edifice, which, like some Indian fane, should grow from within outwards till it became world famous; he believed in local growth and the development of individual powers inherent in all men, not in the importation of elaborate machinery. He had no universal panacea with which, in half a dozen years, the nation was to be re-created, and poverty, the legacy of a series of generations, the offspring of centuries of error and oppression, the result of social manners, customs and ignorance, the outcome in short of its history, was to be straightway eliminated; he aimed at practical education, and, if his efforts have been crowned with a marvellous and probably unlooked for success, it is but the greater proof of his wisdom in seizing the true idea of progress suited to the conditions and needs of his country, viz., the development of the individual through association, so that the powerlessness, carelessness and ignorance of the isolated worker might give place to the prudence, the thoughtfulness, the credit, the strength and self-reliance of banded and disciplined groups. Moreover it was not simple credit that he aimed at; credit without a proper knowledge of its use, he rightly held to be an error if not a fatal injury: it was disciplined and safeguarded credit; credit based on thrift and prudence and having a directly productive object. Nor was it credit only but all the benefits of co-operation at which he aimed. His first association in 1849 was a Friendly society for relief in sickness; his second in the same year was an association of shoemakers for buying raw material; in 1850 the first Loan society was formed with ten members, all artisans. The organization of credit was, however, a main object; he saw that by the aid of a little capital, properly employed, the man of prudence and capacity could often raise himself a stage higher in the social scale, whereas under the reign of usury, borrowing was simply the beginning of ruin, or at best a means whereby the surplus profits of work went to the non-worker. The want of credit may be imagined from the fact that 60 per cent. was common, while a workman borrowing 50 thalers (£7-10-0) for buying material might be charged 1 thaler a day for the loan, or 730 per cent. per annum. Hence his attempts to form societies both for lending money and for buying raw material. That this usury was not a necessary rate, but the result of mere greed and monoply is shown by the fact that his petty associations, even at inception when rates were necessarily high, could lend with much profit at 10 to 14 per cent., and speedily reduced their loans to 8 per cent.

In 1849-50 Schulze-Delitzsch began his famous work with the above three institutions all within Delitzsch, a small town of 8,300 people. He added to the above labours that of his pen in the shape of small treatises or tracts, and, in 1854, he started at Leipzig a periodical for a co-operative propaganda, which, in 1861, developed into the now flourishing weekly Journal of Co-operation (*Blatter fur Genossenschaftswesen*).

By this incessant individual energy of Schulze-Delitzsch, whose activity with pen, speech and action was unbounded, thirty mutual credit societies had been started by 1858, and by 1868 his efforts had been crowned with unexpected success, a success won by sheer energy and courage; not only did his social and political adversaries attempt to crush his efforts, but the money-lenders and brokers from whom he was endeavouring to deliver the working classes united against him; they prevented his access to newspapers, and thus drove him to establishing his own periodical and to the issue of pamphlets and leaflets. In the early days the police attempted to interfere on the ground that the societies were not legal or recognized by law; this nearly fatal interference was successfully opposed. His societies in fact under the common law of Germany had no commercial status; they could only sue and be sued as a society if the deed of constitution was signed by every member, and the result was that they survived by sheer inherent force and by the extraordinary credit obtained by the principles of their foundation. The societies were not recognized as "commercial," not entering into the category of those recognized by the commercial law. Hence, as mutual societies, they were merely on the footing of ordinary individuals, while if they had dealings of any sort with outsiders, they contravened the law. The German law of 1868 first recognized these societies of unlimited liability as legal entities on a commercial basis.

Suffice it to say that they have marvellously succeeded. In 1888 there were 2,160, of which 901 were members of the Central association and had given in their accounts showing—for these 901 alone—461,356 members (512 per society) with, in round figures £79,500,000 advanced as loans, £5,500,000 as own capital, £1,270,000 as reserve, £21,250,000 as deposits and borrowed funds.

For the year ending March 1892 the figures reported to the Central association alone are as follows: 1,470 associations reported, of which 1,076 were credit societies; these latter had 514,524 members, or 478 per society, very few having less than 50 and only seven more than 3,000 members; about half the number range between 100 and 350 members. About one-tenth of the members are women. The paid-up share capital of the 1,076 societies was £5,724,225; their reserve £1,473,702 in addition to the paid-up capital, to which it bears a ratio of above 25 per cent.; each society has on the average a capital *plus* reserve of £6,689, and each member has paid up an average of £11.

Borrowed capital, chiefly deposits, and loans from Savings banks all below six months, was £21,951,159, so that the total working capital of 1,076 banks was £29,149,085. In every £100 of working capital, £20 (round figures) were share capital, £5 were reserve, and £75 were borrowed. The loans issued were £78,080,526, of which bills issued in favour of the society were for £27,865,803, ordinary bills of exchange discounted £17,644,502, promissory notes and simple bonds £4,569,842, mortgages £689,904, and cash credits £27,315,930. Each society lent on an average £72,565, or at the rate of about £152 per member. The outstanding balance against cash accounts is not known; on an average of seven years it is just 25 per cent. of the aggregate of the credits allowed; there were in all 48,185 cash accounts. Exclusive of these, there were in the year 1,568,424 loans aggregating £50,765,095, or £33-7-0 per loan, a sum which sufficiently shows the class dealt with. The total business done, *i.e.*, money received and money paid out was £130,646,898: it varied from £300 to £5,250,000 per society. The cost of administration was £312,542 or £291 per society, a rather high figure. Losses were £61,882 and net profits £442,025, of which about two-thirds were credited to dividends and nearly one-fourth (£99,365) went to the reserve, the remainder being balance. Dividends ranged from nothing to 30 per cent., the average being 5.34; £2,653 were granted towards education.

The above figures have been adopted from Mr. H. W. Wolff's resume of the report for 1892, but require some further remarks. The capital and borrowed sums aggregating 29 millions sterling are the amounts standing on the books on the 31st March; the borrowed capital is not the amount borrowed during the year but the amount owed to creditors on the 31st March. From a comparison of reports, however, it is clear that the sum entered practically represents the working capital on any day of the year. This then is the amount which the banks place at the disposal of borrowers; the loans were 78 millions; not, however, 78 millions for a year but only some 29 millions. Each loan, therefore, averaged $\frac{29}{78}$ of twelve months or somewhat above four months in duration; and as no loan is granted for more than three months, and many are for much less, a large proportion must have obtained extension. The matter is of economic importance; when learning that the banks have lent 78 millions it is often supposed that the 78 millions were out throughout the year, whereas, in fact less than 29 millions—for the reserve is not lent out to a great extent but is invested—form the capital advanced for possible production in successive short-term loans. Assuming that all the remaining societies, which though more numerous are probably of much less importance, not having enrolled themselves in the Union, do a somewhat smaller business, the German Co-operative banks of this type have, perhaps, £50,000,000 sterling in working capital available for loans. Hence when it is said that the whole number of societies "probably lends out annually something like £150,000,000," it must be remembered that though the loans aggregate £150,000,000, the amount lent is probably not above 50 or 60 millions lent in short loans several times in the year.

These are the general results as shown by figures: the relations of these banks with agriculture will be subsequently mentioned; and yet, marvellous as is the progress of forty years—a period short indeed in national growth, though long to impatient reformers, it is clear that only the edge of the subject has been touched. The question of rural usury is considered in Germany as one of the most pressing of the day, and usury itself as a social danger of the first magnitude. In 1888 the matter was exhaustively discussed in the German Parliament and has been the study of numerous economists, statesmen and societies. There is no remedy but that of incessant, intelligent, devoted labour in the cause of progress, and Schulze Delitzsch himself recognized this in his avowed principles of educating the masses in the questions of thrift and prudence. Still, a great beginning has been made, and the way not only pointed out but traced; wherever societies have been started, they have, for their members, overcome much of the indebtedness and misery which were till that time the unvarying lot of the working classes, or in the words of De Lavaleye, "Wherever they have been established, they have put "an end to usury"; they have formed "centres of economic progress." For not only do they grant fairly cheap credit, but in introducing the principle of association, they help the development of various societies whether of consumption and supply or of industry. The co operative societies of all classes of which Schulze Delitzsch may be called the founder, direct or indirect, now number in Germany above 6,000, with millions of members, while the credit societies of Germany, Austria and other countries, based upon the principles of Herr Schulze Delitzsch, were calculated in 1886 to number about 4,500 with 1,500,000 members, and a total business—not loans but business—of about £250,000,000.

Principles.—These banks start from the fact that capital is necessary to enable labourers and honest men to lift themselves higher in rank, to improve their methods and instruments of work, to develop their estate, opportunities and capacity; the object of credit is the capital necessary for these purposes; loans for unproductive purposes did not enter into his idea of 'credit.' Credit is, in fact, the power of obtaining capital, and capital is wealth to be used productively. But he had also in view that self-help is the only true source of such credit, and that capital obtained by aid of philanthropy, charity or even of the State except on a rigid business footing, is an injury; every act of benevolence accustoms men more and more to dependence on charity; every State intervention by way of favour renders men less self-reliant, more helpless in face of difficulty. He

disclaimed all external intervention or interference, believing that men associated on his principles were sufficient for themsleves, and he proved his theory by his success. Not only did the State not intervene on behalf of his work, but, after European fashion, it attempted to control it by police interference. Fortunately these attempts failed. Not only did the State not give privileges or freedom from taxation, but its laws did not recognize them as civil entities, until the law of 1868 was passed, *i.e.*, until the societies had established their position they had no legal status, and could not sue in Court or obtain recovery of their dues; their credit was based on their own responsibility and solidarity, since not being a recognized entity they could not be sued except individually. Yet they succeeded and were an established success before the law recognized them. Schulze Delitzsch considered that the only province of the State was to remove obstacles and he invoked its aid for this purpose and not to obtain privileges which he steadily resisted.

In fact the great principle which seems to underlie success in the Credit associations of "small folk" is that of self-help; credit cannot be successfully given to such folk by large institutions, and credit, which is the result of philanthropic or State effort, is apt to be either abused or abortive it is abused for it comes in the guise of charity, and is received as a mere surplus of the wealth of others which they can easily spare, with similar subsequent grants beside; it comes from a general and indeterminate fund, which is popularly supposed to be inexhaustible. Similarly, when it is supplied by Government it is not only supposed by the borrower to be from an inexhaustible source, so that no one will be harmed if it is not repaid, but it is necessarily surrounded by the lender with so many rules and formalities, that it cannot reach those whom it would benefit. Above all, such credit does not educate; it does not teach the borrower that all capital comes from saving; yet without this lesson credit is dangerous; credit is only safe when it brings with it the lesson that there is no royal road to wealth; the mortgage of the unearned increment, the cheap loan from the philanthropist, the Government takkavi at charity rates, teach the ryot nothing, while tending to beget carelessness and improvidence; it is the painfully saved surplus from laboriously won earnings that is the true educator. "If he is to value a gift he must be his own benefactor, if he is to deal "scrupulously with it he must be its guardian."—(Wolff.) "The only true secret of "assisting the poor is to make them agents in bettering their own condition."—(Archbishop Sumner).

As a rule, too, these banks are local, and a marked feature, if not a principle, of their establishment is the limitation of their area of operation. The Schulze Delitzsch banks do not indeed recognize any limit, but in practice it seems that each bank operates in a small area; in the Raiffeisen banks this is an absolute rule. Hence there arises that local knowledge by the bank of its members, by the members of the bank and of one another, which seem essential to success in bringing credit to small agricultural folk. A further principle is that of association with unlimited liability—a principle which gives the maximum of credit possible in the absence of material pledge—compels the admission only of the more prudent and thrifty, binds the members together in a spirit of fraternity, and at the same time ensures that loans will anly be advanced and spent for productive or useful purposes. The result of this solidarity of members known to be *primâ facie* prudent and laborious, coupled with the material results of their thrift in the shape of shares capital and reserve(is not only an abundant credit as shown by the deposits, which average about three times the share capital and reserve, but a large freedom both from losses or from serious failure. Losses in general have been trifling, and such as are incidental to all credit operations, while the general annual profits have been good; but it is doubtful if this solidarity is essential to success. In Austria it is not compulsory, and only half the societies have adopted it; in Italy, where the success approaches that of Germany, it is practically unknown in the Popular banks; the new German law of 1889 cancels the former postulate of unlimited liability for co-operative societies, and grants an option between three different methods. As it is unlikely that unlimited liability will form the basis of any Madras society, the question will not be discussed; mention of it will, however, be found in the translation of the law of 1889 in another appendix.

The principle, of course, does not prevent failures; official statistics published by the Central association show 36 failures and 176 liquidattions, out of about 2,000 societies in the twelve years ending 1886. Of these, the liquidations seem rather to be the winding up of affairs either for want of business or for replacing the society on fresh foundations. The bankruptcies are due to non-observance of the rules which experience has laid down.

Methods.—The methods is that of an association, each member subscribing a share, and thus realizing a share capital to serve both as guarantee and as a lending fund, as well as to enforce thrift; the association is one of unlimited liability, by the guarantee of which and of its shares, outside capital is attracted, which is lent out on short-term loans to members only. The profits are credited to the share capital, after allotting a certain amount to a reserve, and to the payment of the directors and staff. Members can withdraw at pleasure, but can enter only after scrutiny by the society. No local limits are prescribed, but the office is usually placed in a town or large village. The following paragraphs develop this outline.

Formation of a Society.—Seven persons at least must unite to form a society; these must draw up the statutes (Articles of Association), the general subjects of which are laid

down in the law (*see* subsequent appendix). A board of directors and a committee of supervision must also be elected by the general body. The statutes, with the names of the directors, must then be registered in full in a register of societies kept in that Court of the district, which keeps the commercial register. The statutes are examined and certified by the Court, which also publishes an abstract of them. Only after the above registration does the society acquire a legal existence, and it is then considered as a "commercial" or trading personality, subject to the provisions and with the rights granted by the Code of Commerce. All further details will be found in the translation of the law.

Clientéle.—Any one may be a member, who can prove that he is worthy of being such; candidates must show that they are prepared to join in the principles of self-help and thrift; admission is granted only after enquiry into the character and circumstances of the candidate by the directors or committee of supervision. As candidates are generally from the same village, petty town or neighbourhood, this is easy enough. Every member must sign a declaration of adhesion to the conditions of the society. The classes aimed at as clientele are those who having no material capital, save perhaps some tools, yet possess a moral capital in their honesty, industry and skill; those particularly in view were the urban artisans, and small traders and agriculturists were not specially provided for; but nearly one-third of the members are agriculturists as will be seen below.

The following tables gives the percentage of the various classes of members for 1889-90 out of a clientele of 435,000 members belonging to 914 banks:—

Class.	Per cent.
Agricultural proprietors	29.5
Independent workmen	28.1
Day labourers, gardeners, &c.	3.2
All other classes	42.8

The table, borrowed from a report by M. Brelay, is not quite correct, as the total amounts to above 103. The general proportion in other years of agriculturists is about 26 per cent. and of agricultural labourers about 3 per cent. so that nearly three-tenths belong to agriculture

All members may, of course, become borrowers, and, by the law of 1889, only members are entitled to the privilege.

A member is permitted to retire at the end of the commercial year, if notice has been given at least three months previously; he may be excluded for loss of civil rights, or for disobeying the rules of the society, especially as regards his dues, or for joining another similar society, or if he has caused loss to it, or if he has become bankrupt; such dismissals can only be ordered by the general meeting upon the proposal of the directors. A list of members has to be kept up, a copy of which must be sent to the local Commercial Court

Transfer of membership is permissible by law, but the societies may, by law, refuse to allow it, or may impose conditions. Death is considered as retirement. A retiring member has a right to his share value, but not to any portion of the reserve. He is partly responsible for the debts of the society for one-and-a-half years after retirement or expulsion.

Administration.—The societies are wholly autonomous and democratic; they are neither dependent on one another nor on any external authority or institution. The general assembly is the source of power; this consists of all the shareholders, each of whom has one vote and one vote only. This assembly elects the board of directors, but these are subject to the control of the council of supervision, which can suspend them and call a general assembly for their dismissal. This council is, in its turn, amenable to the control of the general assembly. The third chapter of the law of 1st May 1889 and the model statutes of these societies, translated in full in an appendix, gives complete details regarding the administration.

General Meeting.—This is the source of power, and, by the law of 1889, every member has the right of voting in it, on the "one man, one vote" principle, which is adopted by most co-operative societies everywhere, both as a necessary principle and an advisable practice. Proxies are illegal; any member wishing to vote must do so in person; exceptions are made where the members are females, or incapable, or are themselves societies, as in Unions of societies. The meeting is summoned by the directorate or by the committee of supervision, but the law allows other methods; they must take place after the end of the business year when the general report is presented, and on orders issued every quarter. The balance sheet must be laid on the table of the office at least eight days before the annual meeting and members must be informed of this. There are strict rules for the assembling of both ordinary and extraordinary meetings, for the conduct of business at the meeting, for ballot and for the resolutions passed at a meeting, for which the law and the text of the model statutes may be consulted; for certain classes of resolutions a three-fourths majority is necessary, and for certain of these at least one-third of the whole body of members must be present, failing which a second meeting must be summoned, for which no minimum is fixed. Elaborate precautions are laid down for duly recording the resolutions. Certain subjects are expressly reserved for the decision of general meetings for which the Articles may be consulted.

Directorate.—This usually consists of three working members, who may or may not be remunerated; if remunerated, which is usual, they get either fixed pay or a commission on the profits or both. Their status seems somewhat different from that of directors in

an English or Madras society; they fully represent the society, judicially and otherwise, the signatures of any two of them binding the society; they are responsible for carrying on its work according to their discretion, and are separate from the paid office staff, but their duties are in some ways more like those performed by managers and they are partly responsible to the committee of supervision. The directorate has usually three members, a chairman, a treasurer and an auditor or comptroller, who are elected for three years by the general meeting. Their duties and responsibilities in the matter of general business, of keeping a register of members, of observing the provisions of the law as to the returns, &c., to be made to the Commercial Court, of book-keeping and preparing the balance sheet, of providing for external audit and of receiving and issuing money, their relations to the council of supervison, their remuneration and the security to be given by them, are minutely prescribed in the law itself and in the model statutes which are translated in the appendix. It will be found that the directorate is very carefully looked after, and it is not the fault of the law or of the rules if their management is faulty. In certain matters, such as the engagement and dismissal of the paid staff, the conclusion of certain special contracts, the fixing the rate of interest and commission on loans, the admission of new members or the proposal to expel them, the contracting of loans by the issue of debentures with the details as to amount, &c., the conditions for cash credits and savings deposits, and various other matters, the directorate acts conditions are laid down.

It is usual to forbid any director to obtain any loan from the society during his term of office as a director; the law provides that if the Articles do not absolutely forbid it, the consent of the committee of supervision shall be necessary if no other special conditions are laid down.

Council of Supervision.—This standing committee is an organ of society administration peculiar to and almost universal in Continental Europe. Its members do not actually interfere with the conduct of business, but have complete supervision over the work of the directorate, *i.e.*, over the operations of the society; they must meet once a week, and the directors must, at each such meeting, and also monthly, present a report of the receipts and disbursements of the previous week. The committee supervises every branch of operation and can call for reports from the directorate whenever they see reason to do so; they can and must examine the books, cash and securities frequently, and must assist in the special audit. They can summon a general meeting whenever necessary, and can suspend a director and make arrangements for his duties when necessary, pending the decision of a general meeting. Loans to members of this committee are granted only under special precautions, and neither they nor directors can be accepted as sureties for loans.

In certain matters their consent and their co-operation with the directors is necessary The duties of this important committee are worth ample study as detailed in the appendix; some such committee will be a valuable aid in the proper conduct of mofussil societies.

Audit.—This subject is now fully provided for in the law and in the Articles. Experience has shown that without due audit being made compulsory, it was apt to be neglected, and Chapter IV of the law of 1889, *q.v.*, is now devoted entirely to the subject of audit *ab extra*, while section 7 of the same law makes it obligatory for the articles to provide for the preparation and due inspection of the balance sheet. By the model Articles, the directors are especially responsible for the acounts, and while one of them, the treasurer, must especially look after the keeping of the accounts, another—the auditor or comptroller—is responsible for checking them; as stated above, a weekly and monthly balance sheet must be prepared by the directorate and submitted to the meetings of the committee of supervision, beside the ordinary complete annual balance sheet, statement of profit and losses, and statement of receipts and disbursements. It is this committee which provides the internal audit, for they can at any moment, and are bound frequently to look into the books, accounts, cash and securities of the society, and are competent for that purpose to call in the aid of experts to be remunerated by the society for the annual examination of the accounts.

The law provides in its Chapter IV for compulsory audit *ab extra* at least once in two years; if the society belonging to a Union or Group the auditing or inspecting experts of such Union, will be auditors; such Union is required by the law to have the audit and inspection of societies as one of its objects (*see* 'Unions'). If the society does not belong to any Union, the local Commercial Court appoints an auditor in communication with the society and the local Government Executive officer. Moreover the general meeting can, if it thinks fit and without previous notice of such resolution, appoint a special committee of three members as auditors, who shall have all the powers of the committee of supervision for the examination and inspection of the accounts.

Funds.—Under this head will be mentioned the classes of funds available to the societies, viz., share caiptal, reserve, deposits, borrowings.

A share capital is deemed an absolute necessity, not merely as a guarantee—material in itself and moral in its evidence of the thrift and prudence of the members—for loans *ab extra*, since the solidarity of the society provides largely for that, but as a means of improving habits of thrift and as furnishing loanable capital. This consists of the shares of the members, so that the society has a variable and increasing capital. The value of each share varies with each society; the minimum is usually £6 (40 thalers), but may be much larger, so as to continue the initiatory thrift; but the minimum must

not be too high lest the poor find themselves in a minority as compared with the well-to-do who look for heavy dividends; nor too low since the share capital would then be too small. Each member holds only one share—the societies being of unlimited liability—which may be paid up at once or by very small monthly instalments, all profits being credited to a share until it is fully paid. Since the credit allotted to each member takes into consideration the amount paid by the member, it is evidently to his interest to accumulate as much as possible with the society.

Moreover dividends are allotted upon the amount paid up, so that a member's share of the profits increases with his thrift. A small entrance fee is invariably demanded.

Reserve.—This is made obligatory by the law and is provided from entrance fees and from a share of the profits, and should accumulate till it reaches at least 15 per cent of the share capital; as a matter of fact, the reserve of 1,076 associations in 1892 amounted to 25 per cent of the share capital. It is usual to credit the whole profits for the first year or two to the reserve; after that 15 or 20 per cent is found sufficient. This reserve must be kept full, any shrinkage, by reason of the payment of losses, being at once made good from the next year's profits. An outgoing member has no claim upon the reserve; this fund remains intact save for demands to cover losses. It may not be used in ordinary business, but must be properly invested.

Deposits.—It is obvious however that societies which operate only with their share capital have a very limited field of action, while their expenses will be disproportionate to their business; they lose the advantage of credit which the possession of that capital gives, and they fail in the all-important function of banks, viz., in gathering together infructuous hoards and issuing them to industry. Hence deposits are received—generally on three months' term, which is the usual German period—from all classes whether members or not, interest at from 3 to 4 per cent. being given, the rate being generally determined by the directors and the committee of supervision; this attracts money from all sides, so that Schulze Delitzsch deemed it advisable to restrict deposits to a certain maximum in view (1) of the difficulty of lending safely and (2) of the danger arising from the power to withdraw deposits at call. He desired especially to attract deposits from the class for which these banks were started, viz., the "small folk"; he had ever in view that the banks were to promote thrift and prudence, and not merely to grant credit; they were to be, and in fact are, Savings banks as well as Loan banks. As regards the danger arising from deposits at call, he minimized it by requiring, as far as possible, fixed term deposits, which might, if required, be repaid before the expiry of the time but only on deduction of a commission; part of these deposits must be invested in thoroughly liquid securities; he also directed that ordinary deposits should be used in discounting well known paper, while term deposits and capital should be invested in paper less readily accepted by ordinary banks, such as agricultural bills or bonds; it is also usual to add the now general clause *de sauvegarde*, by which the society, though ready to pay at call, can claim a delay of from four weeks to three months. Obviously a petty Popular bank has, by itself, no considerable power of rediscounting bills, since its own signature unlike that of a great bank, will hardly transform bills of unknown persons, *e.g.*, agriculturists, into ordinary marketable securities, hence particular care is necessary in using the deposits in petty banks. The general Union and Central bank system, intended partly to meet this difficulty, will be described below; but it is considered well to limit deposits to two or three times the amount of the subscribed capital when the bank has attained its full development; at first they may be greater, since the capital is only in the inceptive stage.

Funds are also procured by establishing relations with some ordinary bank, which will either lend money direct or discount its paper; such banks also open an account-current with the Popular bank receiving its surplus funds till required. While this source of funds is desirable as providing a support to the Popular bank, the accommodation has to be paid for, and in times of tightness, the rate may be very considerable.

Debentures.—It does not appear that the German banks have adopted the system of issuing "debentures" after the pattern of the "Pfandbriefe" or "obligations foncières" described under "Real credit." These now well-known bonds are issued in Italy by the Popular banks under the name of "Buoni di tesoro dell agricoltura" or "bons agraires," and appear eminently suited for the financing of these banks at least when united in groups.

Loans.—The points for consideration under this head are the class of loans, their maximum amount, their term, the rate of interest and the security available. Loans are either simple bonds, bills with the personal guarantee of other members, ordinary bills of exchange, mortgages and cash credits.

In 1884 and 1892, the transactions were as follows:—

Years.	Societies reporting.	Bills guaranteed by other members.	Ordinary bills of exchange.	Simple bonds or promissory notes.	Mortgages.	Cash credit.
		£	£	£	£	£
1884	879	25,128,926	18,011,677	5,791,726	706,755	26,208,549
1892 ..	1,076	27,865,803	17,644,502	4,569,842	689,904	27,315,930

It will be seen that the mortgages count for very little, simple bonds for about one-thirteenth, ordinary discounts for a little below one-fourth, while bills guaranteed by other members and cash credits are about one-third each.

The objection to the ordinary bond is that it cannot be rediscounted, so that money is locked up till the échéance of the bond; this accounts for the comparatively few operations. Mortgages are in entire disfavour with these societies, on which three months is the usual limit for a loan; probably these are either on pledge of movables or belong to certain rural banks, in which terms of loans somewhat differ from the ordinary Schulze Delitzsch banks. Schulze Delitzsch in fact considered that absolute ruin was the inevitable result of a society locking up capital in long-term loans when its funds were largely deposited at call or short term, and he forbade his societies to grant such loans; the three months' loan or bill was the aim of his operations.

The two forms of discounted bills account for the largest number of transactions. The former class of bills is that which originates within the society, where the drawer and acceptor are the member and the society respectively; the second class are outside bills brought to the society for re-discount, and bearing signatures known to the society. Since 1868, the societies have a regular status under the commercial law, and act therefore as ordinary banks.

Considering that the societies had had eight years longer life in 1892 than in 1884, and that 1,076 societies reported as against 879 in 1884, the increase in business is very small. Doubtless the immense development in the decade of Raiffeisen and similar societies account for this, as also the law of 1889 which forbids lending to non-members.

Cash Credits.—(*See* ' Scotch banks ') are rapidly growing in favour, and are based, as in Scotland, upon a bond with other members as sureties, mortgages being also accepted as collateral security. The advantages of this form of credit recommend it strongly for agricultural use, but it is difficult for a small bank in its infancy to use the system; the bonds are not negotiable; a considerable amount of cash is necessary to pay in coming drafts; it continually receives petty payments, for which it has to pay interest, and must, therefore, find immediate employment. Hence although mature banks can grant these credits, recouping themselves for the disadvantages by a somewhat higher interest and by a commission on transactions, young banks grant them with caution. One great advantage is that the banks become aware by the operations themselves, in what way the client is using his credit, and can thus decide whether to continue or to close the account.

Maximdum Loan.—This is generally not fixed as an amount, but it is the rule that no one, whatever his solvency, can obtain more than a certain proportion of the capital. Not merely does this guard against disaster, but against the capital of the bank being absorbed by members rich enough to go to the ordinary banks. The average amount of loan business " per debtor " in 1892 was about £152, the lowest average for some years. This seems high considering the class which is expected to borrow from these banks; it seems probable that prolongations of loans partly accounts for this; if a man borrows £50 and gets two extensions, the loan appears as one loan, but each extension is a business transaction which goes to swell the total values. If this is correct, the amount of each loan is less than that given, but *pro tanto* the apparent amount of business done is unduly inflated, for a loan of £50 twice renewed will appear as £150 of business. As a matter of fact, each actual loan in 1892 averaged £33-7-0, so that the above explanation is evidently approximately correct; the business done was a series of frequent small loans and prolongations, and the capital actually in use was therefore far smaller than that apparently in use. (See *supra s.v.* ' Results.')

Term.—The regular term for loans and bills is in these banks short, viz., three months with prolongations; for cash credits the accounts are renewed or closed every six months. The first principle of Schulze Delitzsch in banking was that the term for loans should be no longer than that which the bank itself could obtain for its own borrowings. Borrowings by the bank are chiefly by deposits, and term deposits in Germany are usually for three months; hence the above term fixed for loans. Moreover, in three months the position of the borrower is not likely to alter materially, so that the bank is more secure than on long-term loans, while the shortness of the term compels members to be thrifty, prudent and calculating. A further advantage is that borrowers will more readily find sureties for three months than for longer terms. The principle is certainly erroneous, and errs on the side of caution; all banks trading chiefly in money at call lock up much of their money in long-term business; Savings banks even place about half their funds out on mortgage. (*See* ' Savings Banks ' *s.v.* ' Germany ' and ' U.S.A.')

For banks of purely personal credit this term is usually sufficient *except*—a great exception—for agriculturists; the three-months' terms prevents undue locking up of a capital and enables the bank to refuse further credit, if necessary; if desirable it can grant prolongations; but for agriculture a longer term is absolutely necessary; it is seldom that a three-months' loan is of use to a cultivator, and the necessity for renewal with attendant expenses, would largely negative the value of the bank. Schulze Delitzsch's own rule was that the " term should correspond with that of the reproduction of the capital lent," and this, for agriculture, can seldom be below six months, even for single crops, counted from sowing to sale. For the purchase of cattle or implements, or of slow acting manures, such as bone, a much longer term is necessary.

It would be better to recognize, as societies are now beginning to perceive, that for many needs, especially agricultural, long-term loans up to, say, two years are necessary;

much expense to parties and much complication in the accounts would be saved by a frank recognition of this fact, let alone that there would probably be an immense increase of business from the agricultural population.

Prolongations are granted up to nine months; but most societies demand either a part repayment at each prolongation or a commission.

Rate of Interest.—This is usually pretty high, operations being small in amount, the form of credit being solely personal, the borrowers of no great status, and the banks themselves so small that the interests on deposits and loans must be high. In the infancy of the banks, interest was as high as 14 per cent. including all commissions, this being considered necessary for stability at first starting; but it soon fell to 10 and 8 per cent. per annum, and the best now charge between 7 and 8 per cent including commission; this is usually charged separately in one sum; *e.g.*, suppose a borrower pay at the rate of 5 per cent per annum with a commission of 0.5 per cent for a loan of one month, this makes the rate 11 per cent per annum; for a loan of three months 7 per cent. Hence in a three months' bill for £25 he would pay 10 shillings at most. As the societies borrow at about 4 per cent the balance of about 3 per cent suffices amply for all expenses, losses and profits.

Security.—The security given is, as shown by the class of loans, almost solely personal, viz., that of the borrower and that of his sureties. As regards that of the borrower it is usual, since the clientèle is small, for the committee of supervision to examine each application on its merits; but in more extended circles, a list is kept, which is revised from time to time, in which the solvency of each member is recorded, and the maximum amount of credit which may be granted to him: this is the Castelletto (*q.v.*), much in use in Italy. The former plan is, however, preferred. Sureties, who are all members, have their credit similarly examined or recorded.

Schulze Delitzsch favoured suretyship calling it the "keystone of the organization"; he considered that it promoted fraternity, provided control and supervision over the borrower, guaranteed the honesty and capacity of the latter, who, if not honest and capable, would fail to find sureties, and ensured punctual payment by the borrower himself, who would on no account leave in the lurch a surety of his own class and guild.

Loans on honour, *i.e.*, without, or on very low interest, and without additional security (*see* 'Italy') are not given by these banks, as they savour of benevolence and charity, and are not considered business transactions.

Repayment and Recovery.—Schulze Delitzsch did not admit the principle of payment by instalments as being convenient to the bank; he demands payment in lump as in the case of commercial bills, considering that it is better to grant a prolongation of the term than to accept gradual repayments. For his short-term loans he is probably right, but such loans should be confined to cases where the loan is reproduced in lump, as in the case of a loan for seed, for carrying out a contract, &c. There are no *special* means of enforcing repayment. The defaulter's share capital and that of the sureties are the first sources of recovery: after that the usual legal means. The banks are not favoured by Government or by law in the recovery of their debts, and, in fact, they absolutely disclaim all special help.

Losses are small and such as are incidental to all credit operations; in nearly every instance they have been met out of the annual profits.

Profits and Dividends.—These are said to average from 4½ to 7 per cent after deducting for expenses of administration, for reserve, for taxation, for a fund for pension, &c., to the employés, and for useful public purposes, such as popular instruction. Dividends play no small part in these banks being deliberately kept high so as to attract savings; this, of course, necessitates somewhat high interest on loans, since the banks individually are in too small a way of business to earn high profits on low rates. A certain proportion of this interest comes back to the borrowers, since the latter are also members, and therefore receive dividends, but their profit is, of course, much smaller than the excess of interest. Here is then a certain opposition of interests between borrowing and not borrowing members. It is noteworthy that in 1892 dividends ranged from *nil* to 30 per cent, the average being 5½.

A very small sum is devoted to charitable or public purposes; in 1890-91 in 1,002 banks, the net profits after deducting all cost of administration, &c., were £314,500, of which only £2,400 were devoted to popular instruction and £2,600 to a fund for employés, pension, &c. The idea of self-help and non-dependence on charity or benevolence of any sort, so dominated the mind of Schulze Delitzsch that it appears to have restricted such operations even within the societies themselves. The history of the rural Raiffeisen institutions and of the Rochdale Pioneers seems more thoroughly to display the co-operative idea of associated benefits other than credit.

The Articles lay down strict rules for the compilation of the balance sheet and for its inspection by the committee of supervision, to whom the directors must send it, together with a complete statement of the year's accounts, a statement of profit and loss, and another of all receipts and disbursements. After audit, for which salaried experts may be engaged by the committee, or after any special audit ordered by a general meeting, the net profits are disposed of by a general meeting after providing for the reserve and other matters, the net surplus is credited to the shares of the members, but is not paid over in cash unless the shares have been fully paid up.

Articles.—These provide for all matters not expressly dealt with by the law, and must be entered in a register kept for the purpose in the office of the Court having jurisdiction. The first chapter of the law contains detailed instructions as to the matters to be dealt with in the Articles. A translation of the 'Model Articles' is given in an appendix.

Savings Banks.—The societies now find it advisable to establish a Savings bank side, *i.e.*, to admit not merely term deposits of considerable sum, but the petty driblets which the working man can alone spare, received at any time and repayable at call. The matter will be dealt with at length under 'Savings banks' (*q.v.*), but it is obvious that since credit is only the result of savings, and the inculcation of thrift is therefore even more important than the provision of credit, and since the clientèle to be benefited is the class which can spare only very small savings, the societies are bound to provide a Savings bank side if they are to fill their true rôle.

In order to guard against withdrawals in panic, Schulze Delitzsch recommended (1) that the maximum of individual deposits in the Savings bank side should be kept low, *e.g.*, £14 (100 thalers) or even less; (2) that a higher interest should be allowed on term deposits, so that when the Savings bank deposit reached its maximum, there should be an inducement to transfer it to the regular bank as a fixed term deposits; (3) that though savings deposits should be repayable at call, a saving clause should be introduced, allowing, in case of necessity, a delay of from fifteen days upward. These precautions are found to work well (*see* 'Savings banks').

Unions.—These are of two classes, local or district, and central. Of the former there are now 33, most of the banks in a particular district linking themselves together, not for purposes of administration, for each is strictly autonomous, but for strengthening one another's operations, *e.g.*, by discounting bills, joining in guarantees for loans, lending surplus funds, &c.; these will be again mentioned *s.v.* 'Italy.'

The Central Union founded in 1859 embraces all classes of co-operative societies, and Co-operative banks registered therein are called registered societies and have special privileges. The Union is supported by a subscription of 2 per cent. from the profits of each society. Its action is described as follows:—

"The general Union of the German industrial and economical co-operative societies "founded on the principle of self-help, the affairs of which are at present managed by me "as salaried agent, sends delegates of the associations belonging to it to an annual general "assembly, which controls the affairs of the Union as supreme authority, without in- "terfering with the independence or with the special affairs of the individual societies. "As connecting links between the central authority and individual associations, subordi- "nate Unions which embrace the societies of various German counties or provinces, or of "special branches, have been formed, whose task it is to attend to their special interest, "and to communicate between them and the central authority. They prepare for the "general assembly in special assemblies of their own, and enforce the resolutions of the "former in their districts, while the presidents chosen by them form a committee which "assists the agent in carrying on the business of the Union in the interval between the "general assemblies. Thus, without interfering with the free action of the individual "societies, a central point is created for the exchange of experiences, for the sifting and "criticising of the ever-accumulating material, for advice and help for members in any "kind of embarrassment, and finally for common defence against threatening danger. "And to these advantages, the most valuable business relations between the several socie- "ties in the execution of commissions, and especially in mutual assistance with capital."

The resolutions of the general assembly have only the force of advice, and their acceptance is enforced only by the weight of their own reasonableness and not by pressure of any kind. Schulze Delitzsch was the managing director of this Union for many years, and has been succeeded by Dr. F. Schenck. This Union organizes the annual congresses, of which there have now been 32, prepared the annual reports and statistics, and issues the weekly co-operative organ called the '*Blatter fur Genossenschaftswesen.*'

Finally, there is a Central bank at Berlin, with a branch at Frankfort, for uniting financially the various banks and groups. "An account is opened at the Associations' "bank in Berlin, or, at its branch in Frankfort, in favour of each people's bank belong- "ing to the Union. Each bank keeps a deposit of at least 300 marks there, which can "be increased by deposits in specie, by bills on Berlin or any Prussian bank, or places "where there are other loan associations, or by the transference or the deposit of a third "party from his account to their own; it can, on the other hand, dispose of its deposit "by transference to another account kept by the bank, or by cheques, bills payable at "sight, or ordered consignment in specie. Though Schulze regarded this institution "as extremely important, only a minority of the people's banks belonging to the general "Union belong to it also." Its capital originally of £82,500, and now £750,000, was subscribed by the various banks and by capitalists. Its object is to equalize the financial position of the numerous small banks; each such bank having but a small clientele, occasionally finds either that it has too much or too little money at its disposal. Those which have a surplus remit it to the Central bank which lends—with its own guarantee—to banks in want of funds; hence an equilibrium is established as in ordinary banking, between those who have and those who want, the several banks taking the place of individuals. The usual method, in fact, is for the Central bank to discount the bills of the banks which require money from funds on deposit by other banks.

Government Intervention.—Of this there is little; it has been energetically opposed by Schulze Delitzsch and his successors; only in the amelioration of the law, by removing disabilities under which the societies laboured, and by legislating to prevent the abuses and errors which experience brought to light in the working of the banks, and to make provision for the audit and good management of operations, do they recognize the aid of the State. They absolutely disclaim all subventions or privileges, and they receive no fiscal privileges. The law of 1868 was passed under the influence of Schulze Delitzsch, and that of 1st May 1889, which now regulates co-operation in Germany is due largely to amendments suggested by the experience of these societies. It is translated in an appendix.

The Banks in relation to Agriculture.—Schulze Delitzsch started his banks chiefly for artisans, tradesmen and such like, and without special reference to agriculture: nevertheless they have done a good deal for the agriculturists. He recognized that agriculture requires loans of considerable duration, while his own banks were restricted to three months' loans, though with possible prolongations, and he carefully distinguished between the needs which should be satisfied by Real credit, and these for which personal credit would suffice. His own formula was that "the term of loan should be in harmony" with "the reproduction of the capital lent"; hence, for all purposes for which three or six months would not suffice, *e.g.*, land improvements, purchase of stock, &c., in which the capital is more or less fixed and is reproduced only by instalments, he considered that Real credit was necessary, such as the Landschaften provide, viz., long-term loans repayable by moderate annuities, and financed by the issue of mortgage debentures to an amount corresponding in the aggregate to the mass of mortgages held by the bank (*see* 'Real credit'). He consequently desired and proposed (1867) a law which should give—without special privilege—to any institution which should provide proper guarantees and fulfil certain conditions, the right to issue "Pfandbriefe" (debentures), subject, however, to the control of the State; these institutions should rather be Co-operative associations than Joint Stock banks, the associations consisting of the land proprietors of any given area. For all short term needs "personal" credit as granted by his Popular banks would suffice. His projected law was, however, not taken into consideration, and long-term credit of the Landschaften type is still a desideratum for the ordinary German peasant, long-term loans up to ten and even twenty years being, however, to a small extent granted by the Raiffeisen societies.

In 1885 814 associations sent in their statistics; these had 405,948 members, of whom 103,325 were agriculturists, and 11,655 were agricultural labourers; hence 28.3 per cent. were of this class; the proportion recently is slightly greater. In 1887, it was found that in Germany 12½ per cent. of the male population were engaged in agriculture (including forestry and fisheries), while about 26 per cent. of the members of the associations were male agriculturists (including labourers), so that agriculturists took, in the societies, a proportion more than twice as great as that to be expected from their ratio to the general population. Again, out of 1,000 persons engaged in all other industries, 21 are members; out of 1,000 engaged in agriculture 43 are members. This comparison, however, is vitiated by the fact that a vast number of "other professions" would never belong to a Popular bank, which is practically restricted to the "small folk," amongst whom agriculturists, immensely preponderate. In small provinces, from 100 to 113 per 1,000 agriculturists are members, but in these provinces, the banks are situated in the very villages, and in these, agricultural credit is the principal aim of their extence; *e.g.*, in Baden with a population of 1,601,255 and an area of 5,891 square miles (Madras district) there were 57 rural associations of credit, besides others not specially agricultural. In Silesia there are altogether 107 banks, of which 39 are in villages of population less than 2,500, 24 being in villages of less than 2,000; all these are probably agricultural in chief.

The average interest in the chief of these banks—13 only are tabulated—is from 4½ to 6 per cent., the minimum loan is generally £1; in two cases 10 shillings and 12 shillings.

In 1885, 544 banks, exclusive of purely urban institutions, had 270,808 members, of whom 72,994 followed agriculture only, including gardening, fishing and forestry, and 37,879 were partly engaged in it; these latter are probably small holders combining agriculture with some industry or with daily labour; altogether 110,873 or 41 per cent. These 544 banks lent during the year £38,924,638, of which £6,982,995 were granted amongst the 72,994 agriculturists proper; hence 27 per cent. of the members got less than 18 per cent. of the loans in banks, chiefly rural. It has been calculated that not much more than 10 per cent. of the loans in all the banks together, reach agriculture proper. Again, these 72,994 obtained 204,132 loans or nearly three each; this seems to show that most of the loans were simply prolongations of short-term (three-months) loans, as would be expected from the fact that agriculturists require, as a rule, loans for at least six or nine months, whereas the Schulze Delitzsch principle is to grant loans only for three months; moreover out of these loans only 21,080 were cash credits, proving that the loans generally were simple discounts or short-term loans. The average loan was about £34, but the proportion of small loans not being given, it cannot be said how far the small holders were benefited.

M. Durand states that many of the so-called Schulze-Delitzsch banks which are avowedly agricultural, belong to the Schulze Delitzsch system only in name, *e.g.*, they give loans extending to five and even ten years, an entire departure from the principles of Schulze Delitzsch. As shown below, the institutions of the Offenbach circle are largely agricultural, but are rather of the Raiffeisen than of the Schulze Delitzsch type, especially

in advancing on long term to agriculturists; hence the figures, as given, scarcely represent the true value of the Schulze Delitzsch system proper as regards agriculture.

All the Agricultural banks of this school are not small; that of Augsbourg has 10,627 members residing over a large area; but—whether because it is large or not—it fails like other large banks in reaching the small peasantry; it is said that only "large and medium cultivation draws profit" from this bank. The loans are granted for three months with possible prolongations to eighteen months.

On the whole, though there is no reason why these banks should not be developed to suit the needs of agriculturists, they do not at present appear to reach the mass of the peasantry proper.

Defects.—These are (1) the shortness of the loan term, which renders societies less useful to agriculturists; (2) indefiniteness of area leading to a loss of the co-operative bond such as is felt when the area is limited, and to a difficulty in obtaining information as to the borrowers and sureties; (3) the entire absence of control over the use to which the loan is put, whereby the societies lose a principal safeguard for the value of their money, and miss some of the great functions of co-operative credit, viz., the education of the borrower and the development of production; it is even said that petty usurers obtain loans to no small extent and lend out the proceeds in their own business; (4) the pursuit of dividends, which though tending to develop thrift, tend at least as much to injure the borrower, and to divert societies into dangerous paths of business.

General Results.—Splendid as these are absolutely, yet relatively, they do but touch the fringe of the subject. Thirty or even fifty millions sterling do not count for much where the mortgage debt alone, untouched by these banks, is at least 500 millions, and in Prussia alone, increased by 45 millions, in the seven most recent years of which account is given. If all the societies have together a million members, the above sums reach but a fraction of the population, and it is the poorer classes of that population which these societies have not yet reached, viz., the mass of petty land-owners and peasants owning or tilling less than 7 or 8 acres; still, as the work of only forty years and the result of one man's foresight, philanthropy, energy and business capacity, they are a marvellous work, and give promise of much greater development. The size of half of them (100 to 350 members) shows that they can be worked in quite small localities, and do not necessarily require to be located in a town. The next class of societies (Raiffeisen) will, however, throw still more light on the possibilities of small credit to poor people in ordinary villages.

The societies now to be described and the Schulze Delitzsch Popular banks are rival institutions, rivals unfortunately not merely in a generous emulation and in a striving for the public good, but in controversial strife, which is the more regrettable in that each class of bank is adapted for its own work and its own clientele, and that there was and still is ample room for a great development of both systems.

The Raiffeisen societies are due, as in the case of their rivals, to the philanthropy, prescience, courage, perseverance and skill of one man, Raiffeisen, a man of slight estate, a burgomaster or village mayor, of very poor health, with no particular property, but of unbounded energy. He has been called the Schulze Delitzsch of rural Germany, for he has done for agriculture—though as yet on a much smaller scale owing to the inherent difficulties of the case—what his contemporary did for the towns. Struck by the misery, isolation and want of capital among the peasantry, by the shameless and fearful usury of the private money-lenders, by the absence of association and public spirit in the cultivating classes; and by their need for elevation not merely in the material but on the moral side, he set himself alone and unaided, to develop a scheme for supplying the needs he saw. Like Schulze Delitzsch, talking and writing were with him merely subsidiary to action, and that action was his own, and not another's; he asked for no aid but that of his own will, his belief in his cause, and his confidence in the dormant capacities of the peasant; he formulated no great scheme, nor called on others or on Government to do so, but began work in his own village, with the inspiration of his own ideas and of the needs around him. He had no ideal *entourage* for his work; on the contrary, country round Flammersfeld is represented as very poor, the men of scanty means, ignorant, very superstitious and overwhelmed by debt, and his first attempt at co-operative effort was on the occasion of a great famine "which decimated the "people"; on that occasion; "the usury was frightful and bread and potatoes—the ordi- "nary food of the peasantry, were not to be had." By personal effort he united some of the better class in a 'Co-operative society,' which imported grain direct, ground, baked and distributed it and brought down local prices by 50 per cent.; he also obtained potatoes both for food, and as seed when spring arrived. This was in 1848. In 1849, he started an association of the better classes, who contributed funds with which cattle were bought by the association,* and resold to the ordinary peasants who repaid the amount with interest in five years by easy instalments; this was to obviate the 'Usure "sur le bétail," one of the worst forms of usury found in Europe, the cattle dealer often exercising the right of taking back his cattle—which remain his till the value is fully paid up—if a single instalment of the heavy price is in arrears, and no return is made of prior instalments: subsequently this took the form of an ordinary loan society, the money and not the cattle, being made over to the peasant, who therewith bought

* Association or credit societies for this purpose are not uncommon in Europe, and will be mentioned below.

cattle outright for cash. In 1854 Raiffeisen founded a society not only for granting credit, but for educating orphans, for supplying labour to men out of work, for buying cattle and for erecting a libraray. This was unmanageable and was wound up in 1864; and in that year, the first regular loan society, under the rules, which, in the main, govern these Credit Unions, was founded at Heddesdorf, a village of the Neuwied Union, of which Raiffeisen was the burgomaster. It is only from 1864, therefore, that these societies took their origin. Till 1868 it stood alone; 5 were then newly started and 22 in 1869. Until 1879 progress was slow, but from that time the increase has been very rapid; in 1885 there were about 600, and, in 1890, not less than 1,730 were reported; in the Neuwied circle alone the number increased from 245 in 1885 to 408 in 1888, to 684 in 1890, to 830 in 1891, and to 1,000 in 1893. In the small kingdom of Wurttemberg of the size and population of a large Madras district, there were in 1891 no less than 477 rural banks of this class alone.

Before proceeding to further details, it should be mentioned that Raiffeisen, to whom this organization of rural credit was solely due, was forced by ill-health to retire from public service about 1860. Though sick and nearly blind, he then devoted the remainder of his life to this work, dying in 1888 after his societies formed an established and successful system. Curiously enough, his work, though in Germany, has been attacked by business men and others, on account of the Christian and philanthropic tone which pervaded his writings and his works, as though a system, admittedly successful from a business and economic point of view, were the worse, nay, even objectionable, for having as motives of action, principles based otherwise than on the desire for gain! Had the societies been based and worked on a charity foundation, the objections might have been understood, but they are not only business associations, but business success, and are not open to the reproach of being benevolent institutions; they are real associations of self-help and self-education of the highest character.

The Conditions.—It is worth while to note carefully the conditions under which Raiffeisen began his work, and the conditions of the problem; it is too common in thinking of Europe, to think of its general civilization, its wealth, culture and education, and to apply these vague notions to minimize the difficulties of the European problem, and to exaggerate those of India. The peasantry of Europe are not the cultured classes, who give the tone and name to European civilization and progress; they are often but barely instructed, while their prejudices, conservatism and narrowness of idea are proverbial; they are not wealthy but excessively poor, are much in debt and ravaged by usury to a degree, of which this presidency as a whole, knows comparatively little; what can be expected of them when the vast bulk own less than 7 acres per family, and a large proportion much less than that; vast areas of Europe are bleak and infertile, repaying labour with but a bare livelihood often of the meanest kind, so that the small peasants obtain a poor subsistence even in good years, while droughts and floods, hail, frost, blights, and cattle disease are common fatalities. Moreover, Raiffeisen began his work more than forty years ago and Europe was not then even as now; the peasant had long suffered from other evils, such as from the want of communications and of good markets, from general ignorance, from most conservative ideas and practices, from the poorest methods of farming, from feudal disabilities and customs, which the laws of the earlier part of the century had so partially relieved that a fresh set of laws was necessary, ending in 1850, to relieve them. Hence, it must not be imagined that the task of starting credit societies or rural banks among the peasantry was one whit easier in Europe than in the Madras Presidency; on the contrary, so hard was it that it took nearly twenty years to establish more than the first such bank, while the whole of France, the bulk of Germany, Austria and Italy, the whole of the Iberian peninsula and the whole of Russia are still almost unsupplied, in fact, with rural banks for the peasant; for even the 2,000 or so Raiffeisen societies which have established themselves since 1868, when their real development began, are but a trifle even in Prussia alone with its 54,000 communes.

Raiffeisen was the burgomaster of a village—afterwards of a group of villages—in one of the poorest parts of Germany, the Westerward; it had but a "barren soil, scanty "means of communication, bleak surroundings, indifferent markets." Nature had proved a very step mother to this inhospitable bit of territory, upon which the half-starved population—ill-clad, ill-housed, ill-fed, ill-brought up—by hard labour eked out barely enough to keep body and soul together, with the support of the scanty produce of their little patches of rye, buckwheat or potatoes, and the milk and flesh of some half-famished cattle, for the most part ruinously pledged to the Jews. "That reference indicates a "peculiarly sore point in the rural economy of Western and Southern Germany, which "led Raiffeisen to become an economic reformer. In this country we have no idea of "the pest of remorseless usury which has fastened like a vampire upon the rural popula-"tion of those parts. Even the gombeen-man cannot compare with those hardened blood-"suckers. The poor peasantry have long lain helpless in their grasp, suffering in mute "despair the process of gradual extinction. My enquiries into the system of small hold-"ings in those regions have brought me into personal contact with many of the most "representative inhabitants—heads of agricultural departments, judges, parsons, pea-"sants. And from one and all—here, there, and everywhere—have I heard the self-same "ever repeated bitter complaint, that the villages are being sucked absolutely dry by "the 'Jews.' Usury laws, police regulations, warnings and monitions have all been "tried as a remedy, and tried in vain."—*Wolff.*

It was this miserable district "where every little wretched cottage and tumble-down house was mortgaged and most of the peasants' cattle belonged to the Jews," that was severely visited by the famine of 1846-47, and it was the misery of the people that moved Raiffeisen to action. Such were the conditions of the country and of the people, and no more unpromising field could have been selected. And the conditions of the problem were no less difficult, viz., to supply within, confidence, courage, the spirit of thrift, of self-help and of mutual help through association to a peasantry so enfeebled, suspicious and dispirited, and to inspire without such confidence and credit, that, upon the guarantee of such a peasantry, external capital should be attracted in sufficient quantities to free the peasants from debt and to supply them with funds for maintenance and production. This is the problem, such are the conditions which Raiffeisen had before him, and, in his solution of it in its most unpromising form, he has solved the problem so successfully, that the system is now developing with immense rapidity, so that the end of next decade may easily see at least 5,000 rural banks of this class in full operation. For India the solution of the problem presents an absorbing interest, for there are few, if any parts more difficult, to deal with, than the scene of Raiffeisen's first success, while in this presidency alone there are 10,000 villages far more suitable than Flammersfeld. But the conditions of the country and of the peasantry do not exhaust the factors of the problem; there must be imported into it for its solution, the energy, skill and devotion of promoters of the Raiffeisen stamp; so difficult is the problem that it has nowhere been solved, save by such imported elements, and it is well to recognize this at the outset; given a Schulze Delitzsch or a Raiffeisen, and they will bring bread out of stones, credit out of poverty, isolation and ignorance; without them or some similar influence, the problem remains insoluble.

General Results.—The increase in numbers has already been mentioned, and it should be noted that this enormous increase has practically been obtained since 1868 when the societies first began to develop. Exact figures are wanting, especially as it is never certain whether societies of a similar type, such as those of the Offenbach Union ought not to be entered. Mr. Wolff considers that there are probably above 2,000 including those that have seceded on minor points only. As 1,730 were entered in a report for 1889, and they are said to be increasing at the rate of at least one or two per diem, this seems a moderate estimate.

The statistics of members and other items are unfortunately incomplete; each society is at starting, an isolated rural unit and a very small and unbusiness-like unit; it then joins a group and is gradually educated in business matters. Meanwhile its returns are imperfect or *nil*, so that the group statistics are incomplete. Apparently the rapid increase of late years has outturn the organizing capacity of the group syndicate: this is now under amendment. It will be remembered that the older Schulze Delitzsch organization, though formed in towns chiefly, labours under similar difficulties. In 1890 it seems that only 576 associations had sent in their accounts, and these showed a movement of affairs of about £4,375,000. For the group of Neuwied—the original centre of operations—figures for 1889 are as follows: 245 associations sent in accounts, these had 24,466 members or 100 each; their assets, including outstanding loans, were £501,900; their debts including deposits, &c., £495,200; they had lent during the year £175,000, of which £30,400 were on account-current. Similar figures have not been obtained complete for later years, but loans largely increased as will be seen from the figures given above for 576 associations of this and other groups, *e.g.*, in 1887, loans by the above 245 associations were £50,200 in excess of 1885, while the assets of 364 associations in 1889 were £859,000 as against £501,900 for 245 associations in 1885. Though these statistics show loans incomparably less than the Schulze Delitzsch societies, it must be remembered (1) that they are of much later development; (2) that their members are *solely* agricultural and poor, requiring only small loans; (3) that the amounts lent out are not for three months as a rule but for several years, so that while the recorded Schulze Delitzsch figures show an annual turnover of perhaps £80,000,000, owing to the same funds being turned over three and four times per annum, Raiffeisen societies have only a small movement, since their capital only returns to them every two or three years; (4) that the societies closely examine the object of the loan, which must be usefully or productively employed; they do not lend unless for a good purpose; reckless borrowing is checked rather than encouraged.

The loans granted are small; in 1887 in three societies taken at random, 200 loans were granted for £3,094 or £15-10-0 each; of these 35 were below £5, and averaged about £2; 139 were below £25, and averaged £9-8-0; only 26 were above £25, and none was above £112-10-0. It is clear that these societies have the true peasantry as their clientèle.

The number of members in the various societies is not known; statistics are wholly imperfect and various writers include different classes of societies. In 245 societies of the Neuwied Union, there were in 1885 24,466 members; at this average there would in 2,000 societies be more than 200,000 members; in 1889 in 364 societies of the same Union, there were 13,360.

The proportion to population is equally unknown; in 30 societies taken at random, there appear 5,207 members (173 each) in a population of 55,450, or nearly one in ten; as each member represents a household, it seems that half the population is affected directly by these societies. These, however, are all in the Rhine Provinces, where they originated, and where they are far more numerous than elsewhere.

For Württemberg the statistics contained in the Union report of August 1892 for the year 1891 are as follows: the number of societies was 477 with 37,429 members, being an increase of 118 societies and 5,959 members over the previous year; the small size of the societies, viz., 78 members each is noteworthy. Of these 358 reported business to the amount of £1,473,984, assets as £517,923, liabilities as £514,655, profits as £3,490, reserve as £10,926, and share capital as £11,883: this was an increase of about 30 per cent. over the figures of the previous year. The Savings banks attached to them were doing a good business, while the purchase of manure, compressed fodder, seeds and fruit (for the manufacture of cider) for nearly £17,000 were nearly double those of the previous year. Audit was carried out by the Union in respect of the management and account of 266 societies in the usual fashion, viz., by the transmission of the books to the auditor and his subsequent visit to the society's office; the cost was £320, to which the State contributed £180; apparently a good deal of help, not merely pecuniary, is contributed by the Government in the Public and Agricultural Departments. It is considered that the Union is gradually raising the organization of the loan societies, strengthening their position, improving their credit and developing their useful activity. In proportion as the number joining the Union increases, so does the conviction of their community of interests. The development of this feeling is one of the higest aims of the Union.

Taking a single Rhenish society as an example: Efferen is 7 miles from Cologne; it has 1,600 inhabitants and a society with 121 members dating from 1880. On December 31st, 1887, the members held £992 in existing loans, its annual issue of loans being about £390. The Savings bank attached to it, which chiefly supplied its funds, held on that date £1,992 in deposits under 238 accounts; in 1886 it had added a penny bank, and, in eighteen months, it had issued against petty savings 333 cards and 4,584 pfennig tokens, after the fashion of the English postal Savings banks with their accumulation cards for penny stamps.—(*Le Barbier.*)

There have been no actual bankruptcies during the whole course of operations; in the early days some associations were wound up, but no case of bankruptcy has occurred. There are, of course, small losses in some of the societies, but in all cases they are covered by the reserve, and in no case has any general contribution been required from the members under the principle of solidarity. This at least is the repeated assertion of Raiffeisen and his followers.

Every one of these institutions is, as will be seen hereafter, autonomous, agricultural, local, with a membership and administration solely rural and of the village where the society is situated. It cannot be doubted that the existence and successful working of many hundreds of these societies, must have an enormous educational effect, especially when the particular principles of the system are considered. The result to the members is in fact marvellous; usurers have been ousted, and the peasants given a new chance with new hopes; men are tempted to save, taught to use savings productively; idle hoards are gathered in and used profitably; the spirit of association is developed, habits of business taught, new ideas inculcated, and new methods of economic and social progress encouraged and developed. The results go further: owing to the necessity for grouping the societies, Central associations have sprung up and these are performing most important duties and developing on various lines; they provide manures, seeds, implements, &c., of good quality and at low rates; an insurance department to insure against the effects of hail, cattle disease, &c., is being formed; there are special associations for dairying, viticulture, &c.

The following quotations from Mr. H. W. Wolff's work (1893) describes the general results as he himself has seen him:—

"You should go into the valley of the Rhine, where the Raiffeisen banks have been "longest at work and observe to what extent homes have been made habitable and com- "fortable; how culture has been improved; how machinery has been purchased and the "best manures and feeding stuffs; how the vintner has been enabled to sell his produce "for cash at double the old rate of return; how the small peasant can now buy his im- "plements and manures of the best quality at the cheapest wholesale prices, and yet— "thanks to a large reserve accumulated in his bank, raised up seemingly out of nothing "as if by fairy hands—at six months' credit; you should see how small industry and trade "have been developed, how the usurer, once all-powerful, has been driven out of the field, and those once poor men have become small capitalists. One is afraid of falling into a strain of rhapsody in describing all these results."

As a picture of the results in a particular case the following from the same observer is a stirring account:—

"One very striking and characteristic instance comes to me from the Grand Duchy "of Saxe Weimar. There, in what not long ago was a forlorn district, something like a "rural Seven Dials stands the forsaken village of Frankenheim—poor, neglected it was, "with tumble-down houses, all of them heavily mortgaged, badly tilled fields, and an "uncouth barbarous looking race of inhabitants rightly or wrongly reputed capable of "any misdeeds, and possessing some few famished cattle, nine-tenths of which really "belonged to the 'Jews.' In pity the Grand Duchess had some model dwellings set up, "erected at comparatively considerable cost, but to let at a nominal rent of 30*s.* a year. "The success was not particularly encouraging. Some time after the Lutheran vicar "of the parish resolved on trying the effects of a loan bank of the Raiffeisen type. With "the help of the money so secured—on these poor people's own collective credit—he built "houses, each of which, with the ground upon which it stands and the garden surround- "ing it, cost a little under £60. For these houses the occupiers are required to pay 4½

" per cent. interest, *plus* one-fifteenth or one-twentieth of the principal each year, by " way of sinking fund, therefore in all, according to circumstances, either £5-12-0 or " £6-12-0, in consideration of which the houses become their own after a certain period. " All these houses have been readily taken up: the tenants pay their rents regularly, " and, thanks to the money brought into the village, the whole face of things has be- " come changed. The dwellings have become decent, the gardens well kept, the fields " well tilled, the 'Jews' have been paid off, the cattle are well fed, and the human " inhabitants are known throughout the country as orderly, well conducted, industrious, " saving and thriving folk."

Principles.—There is little difference between the aims and objects of Schulze Delitzsch and Raiffeisen, and that which has been said above of the former applies equally well to the latter; they differ only in the less essential matters of method, and in the clientéle which they had in view; the former founded popular credit for all classes, but especially for townsmen, tradesmen, artisans, &c., while the latter had in view simply the peasantry and rural classes. As in the Schulze Delitzsch societies, so in the Raiffeisen Unions, the principles of action are those of self-help, association, solidarity, prudence, thrift and public spirit, to which, however, Raiffeisen added unselfishness, in that dividends are forbidden; all profits, less fixed interest on the very small shares—introduced only in obedience to the law—go to a common fund to be used for purposes of general utility, and not for private gain. Raiffeisen, like Schulze Delitzsch, demanded no privileges for his societies, but was content to base their success on honest, energetic and prudent action. In the words of S. Wollemborg, who, in Italy has founded similar institutions, he believed that " when a whole class—the peasantry—is in danger, when the need is general " and abiding, no kind of mere assistance, whether from the State or from individuals " is of any avail; rather is it mischievous, for it not merely leads men to count habitually " on such succour, a succour which must fail at last, and render more acute the consequent " distress, but is gradually stifles the feelings of self-reliance and personal responsibility."

Whether he was right in rejecting or in not seeking temporary aid for nascent institutions, is arguable; success may have been delayed by the great difficulties of the start; on the other hand, when achieved it was undeniably due not to external aid but to intrinsic merit. In actual fact two or three advances have been made from the State apparently as encouragement or premia and as aids to audit (Prussian Agricultural Report 1884-87).

A great deal has been made of the differences between these and the Schulze Delitzsch societies, but on analysis, both seem to have similar aims; thrift and the promotion of general well-being is the common aim of both, but while Schulze Delitzsch places thrift and saving prominently forward as the chief factor of credit and of progress, Raiffeisen, while anxiously promoting thrift, desired to guide te peasantry towards unselfishness and public spirit rather than to individual profit. Schulze Delitzsch encouraged thrift and attracted capital by giving dividends as large as possible, so that there is a tendency to opposition between borrowing and non-borrowing members, and possibly to unsafe extensions of credit and enterprise. Raiffeisen allows no dividends, but only market interest on deposits, and all further profits go to a reserve; there is but small share capital which is intended (1) for the ordinary purposes of a reserve, (2) for purposes of public utility. Exaggerated views prevent the partisans of either side from doing justice to the other; both are doing a great work, and while the Schulze Delitzsch banks are far ahead in numbers and operations, the Raiffeisen societies deal with problems of far greater difficulty, viz., the advancing of small loans for long terms to men who, though they possess some property, obtain their profits only in small instalments, and after considerable delays, and with a certain amount of precariousness and uncertainty; the men themselves, moreover, are more difficult to deal with than the comparatively business-like artisan and tradesman classes. Hence a considerable divergence in methods as well as difference in results

The principle of solidarity is common and essential to both: in the one it is simply a means of obtaining credit, in the other it is not only that but a bond of brotherhood.

General Features.—The chief features are (1) that the society is absolutley local, the limits of a commune (village) being strictly maintained as the limits of membership and of operation; (2) that the administration is equally local, members alone being eligible for appointment, and is absolutely gratuitous; (3) that there is but small share capital, all funds being borrowed on the guarantee of solidarity and eventually of the reserve; (4) that there are therefore no dividends to pay and all profits go to the reserve; (5) that only members, who must be residents of the commune, can get loans; (6) that loans may be of long term extending to ten or even twenty years; (7) that, as far as possible, all funds are the result of local thrift.

Local Character.—A Raiffeisen bank is simply a village society of agriculturists, labourers, and shop-keepers united for common interests; at first a few of the better class unite; these by example and precept draw in others. The first steps are hard, but once fairly started there is little difficulty, as the advantages are manifest to all. It is considered that the village should have not less than 400, nor more than 2,000 inhabitants; several small villages may unite if too small for a separate society. This principle of restricted area is deemed essential: the bank is thus at the borrower's doors. It can be administered gratuitously and by the most trusted men of the community; it has a perfect knowledge of the candidates and can reject all unworthy of the honour who would be

likely to discredit the society; it tends, therefore, directly, by reason of the advantages of membership, to encourage or to incite men to industry, thrift and sobriety; as a priest of the Rhenish Provinces once said: "The bank has done more in my parish for morality "than all my sermons;" it has a perfect cognizance of the solvency and status of would be borrowers, and it can and does examine the purpose of every loan and enforce its due employment, for in a village all is open to the eyes and ears of all; it establishes among the members the bonds of confraternity and tends to substitute association for suspicion, healthy and active communal, yet personally free, action for individual isolation and inertia; it forms a centre of local progress and reform. All are admissible, even the poorest, who satisfy the administration that they are worthy of membership, and, as will be seen in Italy, the mere possibility of joining a society has reclaimed men from drunkenness and extravagance, and has given them an impetus to sobriety, industry and even to education in its ordinary sense.

Objects of a Society.—These are well expressed in section 2 of the model Articles:—

"The object of the society is to improve the situation of its members both materially "and morally, to take the necessary steps for the same, to obtain through the common "guarantee the necessary capital for granting loans to members for the development of "their business and their household, and to bring idle capital into productive use, for "which purpose a Savings bank will be attached to the society.

"The society will also have in view the objects mentioned in clauses 2 to 6 of Article "I of the Law for Co-operative Societies of 1st May 1889."

The objects mentioned in the last sentence are—

(1) The supply of raw materials (*e.g.*, manures, wool, coal, &c.).
(2) The sale in common of the products of agriculture and industry.
(3) Co-operative production and sale.
(4) The purchase wholesale of food stuffs and agricultural necessities, and their retail sale to members.
(5. The acquisition of implements or machines necessary for agriculture and industry and their use in common.

These objects cover a wide field, and, if carried out, would develop agriculture beyond belief; it is claimed that these societies are actually developing in the direction here indicated, as will be seen below.

It should be noticed that in fulfilling the object of improving production, a prime necessity was that of "freeing the members from the grasp of the usurer," and one principal result has been precisely this; the usurer *has* been ousted, and the people set free to develop their farms or industries. No previous liquidation was asked for or needed; the member was a neighbour, his character was known, the use to which he intended to put the loan and his power of repaying it was examined, the money was advanced and the thing was done.

The following paragraphs are taken partly from the model Articles of Association, partly from other sources: Articles, of course, differ, in various societies, but are generally similar to those mentioned. (For fuller details *see* 'Model Articles' in another appendix.)

Members.—All adults of either sex, in full possession of their civil rights, may become members; admission is sanctioned by the directors, with an appeal to the committee of supervision in case of rejection. A member may withdraw or be dismissed; the statutes detail the circumstances in each case. It may be noted that dismissal is necessitated by the removal of the member to a village outside the society's sphere of operations, or if he joins another society of unlimited liability, in which case, of course, the original society might lose its lien over the member's property.

Members have the right of voting at the general meetings if present in person; females have no right to take part in such meetings, but may vote by proxy. Every member is entitled to ask for a loan. They are bound to answer in all their property for the debts of the society, to pay up their shares, to obey the rules, and to watch over the interests of the society in every way.

Administration.—Naturally the best men of the village form the original members, and therefore the original administration; the burgomaster (village head), priest, schoolmaster, and bigger peasants usually form the nucleus. The society always has a board of directors, including the chairman of the association, a council of supervision, a general assembly, and an accountant. Regarding these organs Raiffeisen said "the directors "decide, the accountant executes, the committee of supervision oversees." The directors elected by the general assembly represent the society, and have the management of affairs including the admission and exclusion of members, the internal work of the office, the enquiry into and grant of applications for loans; a full description of their duties will be found in the model Articles. For facilitating loans each director has a register; persons in his immediate neighbourhood or hamlet apply to him for loans; on his report the directors consider the application, the object for which the loan is demanded, and the worth of the sureties and of the applicant. The president or his representative, or failing them, a member of the directorate specially elected by them, represents the society in its capacity of member of the central society. The president has other duties, and is held specially accountable for the cash and the correctness of the books and balance sheet, and for carrying out the decisions of the directors.

The council of supervision has a general control; it is bound to see that the directors observe the rules, and that all resolutions are carried out; it is required to make a

quarterly examination of the assets and debts of the society, when the position of each loan, its then value, the use made of the loan, and the status and solvency of the debtors and their sureties are examined afresh. Hence any deterioration of an estate, any misapplication of a loan, any degradation of a debtor or his surety, is at once known and steps can be taken to safeguard the soceity, since the members of the two councils reside in the village which forms the sole *locale* of the bank. It can, moreover, examine the books, cash and securities at any time, suspend the directors or accountant and call a general meeting. Its numerous duties will be found in the model Articles.

The general assembly is the source of all power and is a petty democracy. It decides the general rate of interest to be demanded from borrowers and is likely to keep this as low as possible since all the members are probable or possible borrowers, and since there are no dividends to pay to investors. On the other hand it requires an influential directorate to guide the assembly, *e.g.*, in so fixing interest that profits may accumulate into a reserve as soon as possible, and thus improve the material guarantee for the borrowed capital. No difficulty is found in practice, as the original members, and therefore the original directorate are the most enlightened and influential men in the village. Meetings must be held at least twice a year, and as often otherwise as the committee or a tenth of the members require. It is usual to require all members to attend on pain of a fine in the absence of a valid excuse; this is intended to develop the personal interest of all members of every degree in the working of their society, and is found very effective. The general meeting in these and other co-operative societies usually decides matters which, in an ordinary society, are dealt with by directors; it is a small democracy with direct working powers.

All services rendered by the administration are absolutely gratuitous; only expenses out of pocket, if any, are payable to them; the area and number of operations being small and the accounts simple, there is but little trouble. The accountants is the only paid official and must not be a member of either committee; security personal or material is required from him. He is generally the village schoolmaster, sometimes a forest officer, frequently a tax-collector and the remuneration is small. In India the schoolmaster, monigar or kurnam would naturally hold the post. There is an economy about the German and Italian arrangements very striking to an Indian observer, who is accustomed to see every petty Indian association, village union, reading room, &c., spend much of its scanty funds on establishment.

The accounts are very simple, sometimes rough; but they are now regularly audited by inspectors sent round from the general office of the group to which each society respectively belongs; these inspectors pay frequent visits, point out errors, explain the proper methods and forms of book-keeping and act generally as auditors *ab extra*. Their services are paid for, not by each society, but by the central office of the group to which each society subscribes annually.

It will be observed from the above that not only is the establishment of the societies dependent upon local devotion, but that, once started, they bring men together in association and tend to develop in them a most useful and enlightened public spirit; they are not merely centres of economic but of social and even of moral progress. Moreover these societies do not spring up from the inherent and active love of progress in the village; the peasantry of Germany are not very different from other peasantry; it has been only by the unwearied and incessant devotion and energy of Raiffeisen and his immediate disciples in this propaganda, that, after *many years* of effort and example, these societies have won their slow way to acceptance by the villagers. In some cases the suspicion of the villagers was overcome by the fact that their principal men lent money or placed considerable deposits in the nascent bank; this gave confidence, which, when once given, soon established itself and the position of the socitey. It is invariably a case of local energy, devotion and honesty.

Shares.—Under the law of 1868 it was not clear whether a share-capital was a necessity; it is now placed beyond doubt by the law of 1889, and consequently the Raiffeisen societies which formerly rejected the share system, now require each member to subscribe a small share, which, however, only averages 10*s.*, and may be much lower. Round this question was the principal strife between Schulze Delitzsch and Raiffeisen; the former, accustomed only to townsmen, who either had no property but only wages, or who being in trade, were subject to unseen risks, and who operated in trade matters entirely out of sight and out of the control of the society, obliged his associates to subscribe a considerable share-capital as a proof of their thrift and sobriety and as a material guarantee for their individual and corporate debts; but the Raiffeisen societies, dealing solely with agriculturists and villagers, required no such security; each member possessed in his little farm, in his cattle and implements, &c., material guarantees far beyond those of any subscribed shares. Moreover a peasant, even though he possesses property, has seldom any cash in hand, and his savings are necessarily and best invested not in a Savings bank but in his fields or farm-yard; finally, every act of a peasant, the state of his crops and stock, his personal possessions, the new dress he gives his wife, nay every visit to the public house, is perfectly well known to every other villager. For these reasons, Raiffeisen considered that a share capital is not only useless but mischievous; useless, for, as calculated shares of even £3 only add to the guarantee provided by the solidarity of the members of his societies an additional guarantee of 5 or 6 per cent. since the aggregate actual property of each member in land, house, furniture, stock, &c., probably averages £50 in value; mischievous, for it keeps money out of the land, members out of the

society, and induces a habit of looking for dividends, while the necessity for giving dividends, *pro tanto*, retards the accumulation of the reserve which is a prime necessity. What a peasant wants is often not property but simply cash; he is not a pauper, but he requires floating capital; and to demand a subscribed share, the value of which is to be permanently locked up, may be, in view of his property, an unnecessary burden. Raiffeisen, in obeying the law, fixed therefore the shares at a very small amount, while encouraging the peasant to place any spare cash in the Savings bank attached to the society, whence it could be withdrawn at pleasure.

As there are, however, shares, there are now dividends or rather interest payable on them; the rate is fixed annually by the committee of supervision, but must not exceed the rate of interest paid by the society on its borrowings; the amount is credited to the shares until they are fully paid up. The general meeting may determine that there shall be no dividends.

Shares cannot be transferred or pledged in any way while a member continues in the society; on quitting it he is entitled to his share value.

Reserve.—This consists of the whole net profits after paying the fixed interest on deposits &c., and the cost of administration, and is fully dealt with in the Articles. It belongs to the society in its corporate capacity alone, and no individual has any claim to any portion of it. Should it attain an amount larger than necessary, the general assembly can devote the surplus to some object of public utility such as special beds in hospitals the improvement of the village, its water-supply, school, &c., or it can lower the rate of interest and commission on its loans. Should the society be voluntarily wound up, the reserve, less any due debts, must be paid into the Imperial bank or placed in some recognized investment, there to accumulate at compound interest till a new society under similar rules shall be established in the same village, when it is to be handed over to them as a nucleus.

Hitherto, the reserve have accumulated slowly; in 1885 out of 245 associations only 6 had reserves above £500, and their average was only £103; in 1887 the average had slightly increased. In all cases the reserve is banked with the Central bank hereafter described and cannot be used in the ordinary business of the society. The reserves appear to have been kept down by the low rate of interest and commission demanded from borrowers, who pay considerably less than the members of the Schulze Delitzsch banks.

In spite of the weakness of the reserves the societies have found no difficulty in borrowing, and all losses have hitherto been successfully met from the reserves.

No entrance fees payable to the reserves are charged to members.

Funds.—These consist of the shares, the reserve and the borrowed capital. The first source as already stated, is insignificant in amount; the reserve cannot be used in ordinary business; it is on their borrowed capital that the societies work, thus fulfilling the chief function of banks, viz., the collection of small capitals and their distribution for productive use.

The societies have not wanted for capital except at the very beginning. At first Raiffeisen found funds only with very great difficulty and amongst the richer men who were friendly to the enterprise; his first society could find no friends till a particular capitalist came forward and lent about £300; gradually, however, as the security and regularity of the societies became known, money from the country side began to flow in as deposits, so that a Savings bank open to all persons, and not merely to members of the society, is now the usual adjunct of a society, which draws much or even all of its funds thence. It is found that the funds supplied by members of the association in this way are assuming a larger share of the total funds borrowed viz., about three-tenths, and that these funds are being received in smaller and smaller instalments showing that the small peasants have been reached, and that the hitherto inactive driblets of capital are flowing in to fertilize the very neighbourhood in which they took their rise; these are assisted by the penny (10 pfennig) savings system mentioned above. In some associations the deposits of members receive higher interest than those of outsiders, and a large number are actually financed solely from the proceeds of this savings branch. The confidence of the people in the great security offered by the solidarity for the societies, most of whose members possess some material property, is shown by the fact that in the great war of 1870-71 any amount of funds was offered to these societies without interest, capital seeking security only; it was distinctly proved in the official commission of enquiry in 1875 that the Raiffeisen societies, by the nature of their own organization, though then in their infancy, suffered in time of panic less than any other credit institution, the reason being that lenders were also largely members.

In the infancy of the societies 5 per cent. and even more is paid as interest to lenders or depositors; gradually this is reduced, and most now pay $4\frac{1}{2}$, 4 and $3\frac{1}{2}$ per cent.

The 245 societies of the Neuwied group owed their creditors at the end of 1885 £231,000; in 1888 this had increased to above £300,000.

Loans.—These are for all terms from a month to ten or even twenty years. Mortgages are not refused, but personal credit is the usual form, one or two sureties adding their signatures to that of the borrower. Cash credits are also granted. Raiffeisen, like Schulze Delitzsch, believed in the efficacy of personal security; it brings together the members of a society, and since a member will be very unwilling to cause loss to his immediate neighbours, especially those who have become security for him, it is one of the most efficacious modes of securing repayment if not punctuality; but he directed his societies to be very careful not to accept, either as principal or surety, an idler, a drunkard or a spendthrift, and since the societies are purely local, it is easy to avoid such persons;

hence there is not only great security to the society but a direct inducement to the idle, extravagant or vicious to reform in order to become members of these useful societies. This is no theoretical fancy but the result of experience; both in Germany and still more in Italy is the evidence abundant that these societies do reform these very classes; that they preach temperance and self-control more practically than sermons, is the evidence of priests themselves.

When a peasant desires a loan he applies either to the office or to the director living in his neighbourhood; enquiry is then made as to the candidate's solvency and his guarantees, and as to the use he intends to make of the money; if this latter is approved of, the dates and instalments of repayment are settled, always in such a manner—and this is most important—that the periods and amounts fixed shall agree with the probable receipts of the borrower; the society prefers to increase the duration of a loan, and then to insist upon absolute punctuality—save in cases of disaster, flood, hail or famine, &c.—rather than to grant shorter terms with probable inabilities and delays. In this way, not only can the society calculate on its returns, but the borrower knows his exact liabilities and that—save for unusual misfortune—he is safe to have means to meet them; he is also educated in rigid punctuality and foresight.

Short-term loans, viz., those granted up to one year with possible prolongations to two years or even three, are repayable usually by instalments, as Raiffeisen considered this an important principle Long-term loans, of which those above ten years can only be granted by special arrangement, are always repaid by equal annuities, which include both interest and principal. It was considered advisable by Raiffeisen, and his opinion is largely followed, that all short-term loans should be made payable at a particular time of the year, viz., that when the members have generally sold their crops; this differs for various neighbourhoods between November and the end of December. This practice, however, seems to cause a risk of leaving money unemployed for some months, unless there is competition for loans. Instalments or portions of instalments are received at any time in advance, so as to remove the temptation to spend small sums.

It is an absolute rule that the loan shall be for some useful and productive purpose; this is in fact, one of the chief securities for the repayment of the loan—a security entirely lost sight of by those who demand only material and existing securities. When a loan is used only for a productive purpose, including in this definition the payment of previously existing debts which enslave the peasant and absorb his crops, the lender has the best of guarantees that his loan will be repaid; the borrower is, in fact, in a better position to repay the loan than he was when he borrowed it. To this end, not only must an applicant state the object of his loan, but the truth of the statement must be enquired into by the committee by its local member. If the loan is approved of it must be used for the purpose stated under penalty of immediate recovery. This is not merely for the protection of the interests of the society but of the member; it is desired to teach members the due use of credit and to safeguard their true interests; control of the use of credit is the base of the society's action, and the abuse of this control is checked by the fact that it is the members themselves who control themselves and one another, and that the members are men of similar position and needs.

The duration of loans is chiefly from one to ten years; the societies being composed of actual agriculturists, recognize that three months are seldom of any use in agriculture; even the Schulze Delitzsch banks, where they devote themselves to the needs of agriculture, find that their short loans require numerous prolongations even up to two years; the same will be noticed in Italy also. In 245 societies, it was found that of the total outstanding amounts 15 per cent. was granted for periods below one year, 42 per cent. for one to five years, 35 per cent. for five to ten years, and 7 per cent. for above ten years. Again in 10 societies taken at random 71 loans or 11 per cent. were for one year at most, 442 or 68.5 per cent. for one to five years, and 132 or 20.5 per cent. for five to ten years.

It has been objected, especially by Schulze Delitzsch, that money cannot be lent on long terms (one to ten years) as by the Raiffeisen societies without great risk of bankruptcy, unless they can borrow on similar terms. As a matter of fact, the societies do not generally borrow on long terms; their funds are chiefly savings or deposits. Schulze Delitzsch and others proved conclusively that, by theory, this means bankruptcy, and that the societies could not succeed: but practice contradicts theory—*e pur se muove*. It is only necessary to point to the German Savings banks, with 55 per cent. of their enormous deposits in rural and urban mortgages to disprove Schulze Delitzsch's theory; the Savings banks experience of Austria, of Italy and of the United States is equally conclusive. The fact is that the good credit of the societies prevents any lack of lenders; it is said indeed, that they have more money than they can lend, probably owing to strictness in lending; that these creditors are largely members; that their savings are left for a long time untouched; that, in fact, the banks find that they can place a very large proportion of their funds in long-term investments; finally, that long-term loans are all repayable by instalments, so that the money is continually coming in. It is true that the societies have introduced a rule that repayment of loans of any term can be demanded on four weeks' notice, a facility which is also given to the creditors of the society, but this safeguard is not used in practice except in cases of deteriorations, or of misapplication of the loan, or of serious diminution of the solvency of the borrower from his own extravagance.

Cash credits are not extensively used, Raiffeisen being of opinion that they were unsuitable to the smaller class of peasants; they are opened chiefly for the better class. Whether the loans are granted on mortgage, pledge or personal security, the administra-

tion is bound to examine every three months, the solvency of the parties, the condition of the property mortgaged and the use made of the loan; even the habits of the individuals are considered. If necessary a further security is taken from him, or the whole debt may be demanded in accordance with the terms of the bond, a copy of which is given in another appendix.

The right of the society to demand repayment at any time on four weeks' notice is entered in general terms, but is never practised unless the property has deteriorated or the solvency of the parties seriously diminished, or the position of the society by reason of demands imperatively demands this extreme measure. The advisability of this clause has been much debated. There can, however, be not doubt but that it is necessary where property is being allowed to deteriorate, or the borrower is evidently becoming insolvent through extravagance, or where he has misapplied money lent for a particular purpose. In the first and third cases the rule is universal in land credit societies, and is especially necessary as a matter of contract where the law, as in India, does not make the mortgagor responsible for deterioration of the property mortgaged. But the clause seems indefensible where the demand is necessitated by the position of the society; it is the duty of the society so to arrange its affairs as not to require at call loans which have been laid out perhaps in improvements yielding slow profits; such a clause must produce a sense of uncertainty, and might be means of harassing debtors disagreeable to the directorate.

As pointed out above, the loans are usually small; some fall as low as 10 or 20 shillings, showing the class of peasant who are admitted as members. The largest number of loans are those falling between £5 and £25; the average appears to be about £15 or less than half of the average of £33 in the Schulze Delitzsch societies.

The general rate of interest is 5 per cent., with a commission which raises it to 5½ or 6 per cent. It is usual now to take this commission in a single payment on the day the loan is granted; it is usually 1 per cent. of the total for a loan of one year; it aggregates 2 per cent. for loans up to five years, and 3 per cent. for those between five and ten years. This commission pays the expenses of administration.

With all the care taken to fix the easiest instalments and dates of repayment, it is found that the unpunctuality of the peasants is a standing difficulty; they cannot without vast trouble be got to understand the absolute necessity of punctuality, and much tact is required to avoid, on the one hand, a sudden severity which would deter them from becoming members and taking loans, and on the other, a lenity which would soon ruin the society. An official commission in 1875 commented on this fact, and found that the lenity of the administration on this point encouraged the peasants in their fault. It was found in one society with 284 members, that 81 plaints in Court were necessary in three years, of which, however, only 28 had to be followed up, and only in one of these was the surety called on. In the 24 societies in the jurisdiction of the Neuwied Court, there were 793 suits in three years; of these 222 resulted in attachments of property; it is said that these were chiefly for small loans in very poor villages. At the end of 1885, the amount on loan in 245 societies was £316,289, of which 13 per cent., besides interest, represented expired but unpaid dues; of this, however, two-thirds was accounted for in a single group (Coblentz) which had lent not quite-two-sevenths of the loans; this group had 33 per cent. of its loans in arrears, and evidently for considerable periods, for the interest in arrears equalled 4½ per cent. on the total loans outstanding. In another small group 63 per cent. of the expired loans were unpaid. On the other hand many groups had little or nothing outstanding. It is, moreover, to be noted that the statistics were gathered on the 31st December, while the period of payment is usually November or frequently 31st December, hence arrears do not necessarily mean serious arrears and except in one or two instances, *e.g.*, Coblentz, the interest due was so small as to show that the arrears were of short duration.

On this point the Neuwied central directorate allege (1) that the loans were frequently granted imprudently by the local societies, chiefly from a false idea of benevolence or compassion; (2) that bad harvests, especially in the nine districts (*e.g.*, Coblentz), caused much distress and necessary delay.

It seems however also true that some local societies shrank from pressing their debtors fearing to drive them again into the hands of the usurers; they did not insist on punctuality and thereby strengthened the peasants in bad habits; also that the debtors had the means of payment, had they been pressed, and did eventually pay up.

It is clear that these faults—undue leniency on the one hand and unpunctuality on the other—may easily wreck the best system. M. Le Barber expressly alludes to that idea of peasants (and others) that a society (or a Government) is abundantly rich and can afford to wait for its money, so that unpunctuality with them conveys no sense of fault. Mr. Wolff, while admitting, it would seem, that the peasants are unpunctual, considers that the societies are training them to habits of punctuality by insisting inexorably on payments at date. Here in India, poverty is too frequently urged as a reason for granting a loan of public money, while the ryot—and not merely the ryot—habitually thinks that the Government is boundlessly rich and can afford to wait, or even to lose an individual trifle.

Other Objects.—The societies do not merely make loans; they do considerable business in assisting land purchase. In Germany as in Italy land is largely sold by public auction, the purchaser agreeing to pay by instalments, a practice which enables him to give a higher price from the ease of payment. For these instalments he gives bonds to the auction-seller, who in turn sells them at a discount for ready money to some money-lender or other capitalist. Should the purchaser fail in any one of his instalments

he finds himself liable to be sold up without mercy, unless he pays a ruinous interest on his arrears. The society intervenes by taking the place of the money-lender at a moderate discount, but requires from the seller a guarantee, usually with personal sureties.

Other objects are the stimulation of, and assistance to, associations for co-operative production, sale and supply; either by the grant of advances or by establishing them as branches, with however liability and accounts wholly distinct from that of the parent society. These are becoming very successful, and supply associations are mentioned as doing business up to £2,000 per annum, the capital for which is originally borrowed from the parent society.

The same Article, which deals with these subjects, lays down that the directors shall endeavour to compose differences between the members of the society, and to assist them if they are unjustly injured by third parties.

Articles.—A translation of the model statutes provided for these societies, adapted to the new law of 1889, will be found in another appendix and will give further details.

General Union and Groups.—As the societies increased in number and importance, it was felt that they should be linked in groups for mutual support and for supervision, for the chief difficulty in starting and working these small local societies is not only that of their weakness when isolated, but also that of finding capable men residing within the area; hence the group and Union system. Five groups are now in existence embracing probably all the individual societies. In addition to these local groups there is a Central Union for the whole of Germany to which all societies may belong. Of the local groups, Neuwied, the original, will be taken as an example. It was founded by Raiffeisen in 1877 with the object of extending, developing, and protecting the local societies. One chief duty is that of instructing the peasants in the proper use of credit; this seems more useful than any other, for cheap credit without due prudence in its use, means only quicker ruin. Doubtless, too, though it is not so stated, the peasants are taught the arithmetic of credit *i.e.*, the calculation of profit and loss probable on a given transaction. Instruction in book keeping and the audit of the accounts is another chief duty; a regular service is organized for this purpose, and the inspectors give free instruction in the subjects to the societies that ask for their services. In 1886, 347 inspections were made amongst 245 societies. Another duty recently undertaken is the collection and preparation of systematic statistics; they are still very deficient. A further and most useful development is the purchase of good seed, manure, implemnets, &c., for the local societies upon demand by the latter; *e.g.*, in 1887 the Neuwied Union alone furnished to its members, at cost price, 15,000 tons of manure and forage, and above 1,600 waggons of coal; in the spring of that year, it bought 2,000 tons of nitrate of soda at 88½ marks per ton, the price otherwise being 130 marks; hence a large gain to the members; in 1889 this business had increased, and so again in 1891, a considerable additional business was done. The steady increase of this class of business is highly satisfactory, and it seems that up to 1893 the Union had thus supplied considerably over £500,000 worth of goods. Here it will be seen, is indicated a reapproachment between the duties of the local societies as credit societies and as Agricultural associations, a connection which will be dealt with hereafter (*sub voce* 'Agricultural Associations' and the 'Poligny Loan Society'). Finally the Central Union busies itself with the promotion of life assurance, and of assurance against the effects of hail, cattle disease and other frequent disasters.

The Central Union holds a general assembly every year composed partly of the representatives of the individual societies, partly of delegates from the local groups, which represent the societies belonging to them. Discussions take place, and a representative syndicate or council is appointed. For business purposes, the Union is divided into sections or district unions, each with the duties of the general Union.

Each local society pays annually 15 shillings as subscription for expenses, including the price of a weekly newspaper (Co-operative Societies Journal) intended to contain statistics and facts relevant to the work of the societies. The Articles of this Central society will be found translated in an appendix.

Central Banks.—The want of a Central bank for the use of societies either in investing or borrowing was soon felt, for it was clear that some societies will, at various periods, have too much and others too little money; a Central bank would bring about an equilibrium. Moreover a well-established Central bank would be in a position to borrow funds at cheap rates and thus provide for societies in need. At first three Provincial banks were founded for their respective groups; these again established a Central bank. This plan failed, funds being limited to a credit of £7,500 obtained from a Provincial Hulfskasse (Benefit Fund), and the banks were finally closed as contrary to the then law. In 1876 the Central Agricultural Loan Society of Neuwied was founded; this is a joint stock company, of which the only shareholders—exclusive of the directorate, who must by law also be shareholders—are the local societies of the group, holding one or more shares of £50 each. The dividend is limited to 4 per cent., all surplus profits going to the reserve. In 1886 148 local societies had joined, holding 736 shares, but in 1891 the report of the Central Union mentions 661 as having become members of the bank; these have probably much increased of late to judge by the increase of business. All the shares (1,000) have been subscribed, but only 10 per cent. per share has been called up. It may be added that Government granted a sum of £1,500 in aid of the first expenses of starting the same sum was granted to a similar institution in Westphalia (Munster). The shares are personal and cannot be transferred without the bank's consent. No societies are admitted as members except those which fulfil Raiffeisen's six primary conditions, viz., (1) unlimited liability, (2) the intention of promoting the moral and material welfare

of members, (3) the narrowest possible limitation of area, (4) absence of entrance fees, and smallness of shares, dividends on which must not exceed the interest paid by borrowers, (5) gratuitousness of administration, (6) the accumulation of an inalienable reserve.

The Central bank, as far as possible, adheres to the same conditions; it is however formed as an ordinary joint stock bank limited by shares, and its administration is partly paid; the bulk of the responsible work is however undertaken by the committee of supervision which is wholly unpaid. The shareholders get dividends, but not higher than the rate of interest paid to the bank,—about $4\frac{1}{4}$ per cent. —by its borrowing members; it operates only with its own members.

In order to procure funds the Articles provide (1) for the issue of debentures (Pfandbriefe) with the permission of Government as required by law, (2) for the receipt of deposits from members or the public, (3) for receipt of commission, and of the difference between interest paid and received.

It appears that the bank is provided with sufficient funds from the deposits of the local societies; as stated above, these have always found more money than they could dispose of, and this surplus can be deposited with the Central bank at 4 per cent.; the bank lends these deposits to societies requiring funds at about $4\frac{1}{4}$ per cent. with a small commission. On 31st December 1889, the Neuwied Central Bank showed loans to the local societies of £45,930, while the deposits from societies were £61,450. Hence the surplus funds were invested in mortgages, on account-current with a land bank and in Government paper. During 1890 the turnover of the bank was about £500,000, its expenses £450, or less than one per thousand, its profits £468 and its reserve £5,170. In judging of its turnover it will be remembered that it deals only wit its member-societies, and that its operations are consequently not numerous; its business is however increasing rapidly, and in 1892 it was £800,000.

The bank is authorised to invest its funds (1) in accounts current with its members (societies), (2) in discounting bills and in loans on pledge, (3) in mortgages or purchase of rent certificates, (4) in immoveable property, (5) in paper issued or guaranteed by the State or a commune.

The Central bank is doing a useful and increasing business and appears to be solidly based. Its Articles will be found translated in an appendix.

Other Unions have followed the Neuwied example in starting Central banks, *e.g.*, Westphalia and Hesse Darmstadt (Offenbach); the Articles, conditions and operations of these are similar to those of Neuwied, but the Offenbach Bank is somewhat more liberal in admitting as members societies which do not adhere absolutely to the strict Raiffeisen principles.

In other Unions, the local societies utilize ordinary banks for the deposit of their surplus funds and for obtaining credit.

In Hanover a Co-operative Banking Corporation (Limited) has been formed under the law of 1889.

It has been objected that these banks being specialized for agricultural loans, operations would fail, since they would have to receive and disburse money at given periods, *e.g.*, after harvest and before cultivation, and would not be able to maintain an even current of business. The result, however, proves that these special banks can maintain their position and though no great profit is made this is not their object; they were formed as a channel of communication so as to maintain an equal financial level in the various local societies; this object has been successfully achieved.

Resumé.—There are then in full operation a vast number of very small, autonomous, village loan societies, of unlimited liability and wholly rural, if not agricultural, drawing funds largely from the savings of their members, cheaply, almost gratuitously administered, aiming at the moral as well as the material development of their associates, teaching them the use of credit, and guarding them against its abuse. These socieies, originally isolated, are now linked in Unions or groups for mutual support, inspection and instruction, and in order to equalize their funds and provide, if necessary, other funds, a Central bank has been started for each Union which receives and distributes the deposits of the societies which form its sole clientéle and body of shareholders. These Central banks have wisely provided in their statutes for obtaining funds *ab extra*, chiefly by the issue of debentures and receipt of deposits, but have not yet had occasion to do so. It is strange if in this organism of village societies, autonomous and independent, yet, as members of one body, linked to and supported by Central directorates and banks, there is not a seed which may take root and grow in Indian soil as it has done in Germany, Austria and Italy.

Differences between the Schulze-Delitzsch and Raiffeisen Societies.—There has been almost from the first, a regrettable controversy between the two classes of societies, or between their principal men, a controversy amounting almost to party strife, and as unnecessary as bitter, seeing that both classes are independently useful. It is advisable to mention the points at issue in order to assist the future practice of this country.

Both philanthropists started with the same idea, viz., that of providing cheap capital for those who were debarred from it by its enormous cost; cheap credit for those who were exploited by the usurer; their object was to supplant the individual lender by the organized bank. Both saw clearly that thrift is at the base of any possible system; only persons who showed themselves able to save were deemed worthy of credit; saving, moreover, as the only basis of capital, is a *sine quâ non*. Here however the two systems diverged; Schulze-Delitzsch began to foster thrift by rewarding it with dividends and profits as high as possible, thus placing the interest of borrowers in opposition to that of lenders; Raiffeisen placed the interests of the borrowers first and allowed no dividends.

The difference is considerable; the former tend to become joint stock societies, in which investments seek high dividends, some societies declaring dividends to members of 30 or even 56 per cent. (Wolff), a result hardly commensurate with anything but usury; the latter preserve intact the co-operative idea of mutual help, and yet are eminently successful both in attracting abundant deposits at market interest and in helping borrowers; the interest of all members is that of the borrowers actual or possible, and there is no antagonism between investing and borrowing members. It must be remembered that Raiffeisen aimed directly not at the mere material benefits of association, but at its moral and educative results; thrift was to be promoted not so much to make a man wealthy as to make him a better moral agent, a better member of society: he regarded mutual help, the bond of Christian charity, as the cardinal principle, and the necessary result of his system; Schulze-Delitzsch looked more to the material, Raiffeisen to the moral and social results; the former used association to enable the individual to struggle to the front, the latter used the co-operative principle not merely for the individual but as a beneficent method of increasing the common happiness and welfare. This difference is important since the desire for dividends leads to speculation for the purpose of increasing profits, especially where directors are rewarded by a percentage, and elsewhere in this study it has been pointed out that in Madras the Co-operative Funds tend too much to diverge from the co-operative idea of brotherly help, towards that of profits upon investments or as a reward for management. The true co-operative principle worked out in banks is, according to Signor Luzzatti's idea, "a bank with fixed dividends on its shares and deposits, all "surplus profits going to the reserve; when the latter shall be equal to twice the capital "the shares are repaid, and all subsequent profits are expended in philanthropic or useful "objects." (Rostand.) The external profit in this case is that derived by the borrowers from the cheap and accessible capital which they borrow for productive or useful purposes; the investors at the same time get a fixed dividend or interest which is usually somewhat above that of State paper. The corollary of these views, is, in the Schulze-Delitzsch societies, comparatively large shares with considerable dividends and paid administration; in the Raiffeisen societies very minute shares—and then only in obedience to the law—and no dividends but an inalienable reserve, and wholly gratuitous administration except as regards the clerks.

Schulze-Delitzsch, again, started his societies at any given centre with a wholly indefinite area of operation; the larger the area the better the chance of paying business. Raiffeisen on the contrary lays down as an *absolute* rule that the area of operation must be small, never exceeding that of a village. The difference here is radical; in the former societies it is far less possible to know, much less to influence, the members individually, to judge of their character and status, to supervise the employment of the loan; in the latter societies all members are acquainted, the bank's clientéle are its neighbours; it can lend upon character, upon the status both personal and material, of the borrowers and their sureties. Usury can only be fought hand to hand, and it seems likely that only purely local societies can succeed, at least as regards the peasantry.

Other radical differences are as follow; in the Schulze-Delitzsch societies, which are largely urban, only short-term loans are granted, three months being the rule, with one or two prolongations; in the Raiffeisen societies which are wholly rural, long loans are the rule, two or three years being the average, and ten years the ordinary maximum. The former societies do not trouble themselves to watch over the use made of the loan, though they satisfy themselves beforehand that it is to be used profitably; the latter consider it essential *to see* that the loan is used productively, and every three months the utilization of the loans is examined by the committee of supervision; the former societies require repayment of their loans in lump, the return being usually speedy, and the result of a particular operation in trade, business or industrial contract, &c.; the latter take their loans, if of more than a very short term, by instalments, per month or per annum; the former lending only in short loans have no rule regarding repayment on four weeks' notice; the latter insert, though they hardly use, such a rule to provide against the deterioration of property or the misuse of the loan; the former do an enormous short term business with artisans, tradesmen and a proportion of agriculturists, the latter a far smaller but now rapidly increasing business in long-loans almost solely with agriculturists.

So much for the difference between the systems of the two great founders of German co-operative effort. On the other hand it must be pointed out that their common object was the strengthening and raising of the poor by the means of self and mutual help (*s'aider et s'entr'aider*). They rejected mere benevolence in their methods for though charity is a high virtue when applied by individuals to individuals, it cannot or rather does not in our imperfect conditions, succeed when applied to the relief of classes. Yet it was the mainspring of their own action; Schulze-Delitzsch devoted himself with such unselfishness to his philanthropic work that, though voted a statue and a subvention, he left his widow in narrow circumstances, while Raiffeisen, who might have pleaded sickness to excuse inaction, used his life so sympathetically and usefully as to win the name of "Father" Raiffeisen throughout the country side. It is personal devotion alone which effects great reforms among the poor and helpless.

OTHER GERMAN INSTITUTIONS.

These may be divided into (1) mixed institutions which have borrowed from the systems of Schulze-Delitzsch and Raiffeisen, (2) the Agricultural Bank of Treves, (3) institutions clearing with agricultural credit only as a secondary matter, or as annexes of other institutions.

(1) Mixed Institutions.

The chief of these are the societies of Hesse Darmstadt which are united in a Central Union with Offenbach as its head-quarters; these draw alike from the tenets of the two rival systems, but they do not bind individual societies to any special formula or set of statutes, giving each society liberty to develop itself. They admit shares, dividends, entrance fees, and remuneration to the directorate and councillors either by salary or honorarium. In all these features they began with Raiffeisen and have ended with Schulze-Delitzsch. But they agree with Raiffeisen in allowing long-term loans as required by agriculture, and as admitted by the Schulze-Delitzsch societies in Russia, which contain many thousands of agriculturists, chiefly, it is believed, Germans; these loans for years repayable by instalments, are wholly opposed to Schulze-Delitzsch principles. The 'Cash credit system has also been deliberately developed in this Union; its statistics for 1888 show loans of £400,002, of which £56,012 or 14 per cent. were on mortgage, and £86,035 or 21.5 per cent. on cash credit. One form of loan by these societies is the advance upon sale certificates or warrants, a form of bill discount in which the goods sold are invoiced, and the invoice accepted by the debtor then forms a negotiable instrument. Apparently many of these are also the sale certificates described below (*s.v.* 'Bank of Tréves'). The societies lent in 1888 £114,488 or 28½ per cent. of its loans, in this form.

On the whole these eclectic societies have much to recommend them; moderate shares, dividends which might however advisably be limited, entrance fees, and liberal terms and methods for loans. The general principles and methods are otherwise similar to those of the two systems.

(2) The Agricultural Bank of Treves.

This was expressly founded to supply the needs of the small peasantry, but on the one hand it is restricted in its credit operations, and on the other hand it works as a store for sale and purchase of agricultural produce and goods. It is not however a co-operative or mutual society, but a joint stock company which operates for its clients whether they are shareholders or not. There is here an opposition of interests; in selling goods to the public, it should get high prices, and in buying from agriculturists, it must buy as cheap as possible so as to get profit for its shareholders; hence the bank and its clients have opposed interests. This difficulty is surmounted by proscribing dividends beyond 5 per cent., the disposal of all surplus profits resting with the general assembly, but not so as to benefit the shareholders. Hence the society while buying at fair rates can also sell at cheap rates, and all oppression and speculation are alike discouraged. This method savours of charity, for the profits voluntarily waived by the shareholders go to the borrowing clients of the bank.

The bank was founded in 1885 with a share capital of £1,500, for the financial help of the peasantry, specially in providing cattle—the cattle-dealer of Europe being amongst the worst of usurers—, in aiding the peasant to sell his produce at a fair price, and in buying goods for him favourably. It does not however lend money.

From 1885 to 1889, it had sent out 2,821 head of cattle worth £26,499 and had received instalments of their value for £10,656. In 1889, it had bought artificial manures for its clients for £2,716 or £327 above the previous year.

The bank sold raw produce for its clients only on a small scale, but it otherwise remarkably aided them, for the local grain brokers having formed a syndicate to buy up all produce at unduly low rates, the bank undertook to find other markets; this at once broke up the combination, and local prices took their proper level at nearly 50 per cent. above that fixed by the ring.

Another form of usurious injury was successfully combated by the bank, and though this is not found in Madras, will be mentioned to show the value of a local association. The peasants' estates, &c., are frequently sold by auction whether by Court's order or otherwise; the purchaser pays only part in cash, and the rest by a bill in the form of the sale certificate which is a negotiable instrument. This bill, the vendor who, *ex hypothesi*, is in want of money, is obliged to discount with the usurers, when he finds that he must lose 20 or 25 per cent. Moreover if the auction purchaser who has to pay the value of these sale certificates, usually by instalments, fails to pay any instalment at due date, the money-lender who has bought the certificates at once takes proceedings against him, and may thus get usurious interest out of him and sell the land afresh. This form of usury is very prevalent in certain parts, and the bank by buying the certificates at fair rates materially assists the peasantry: in five years it bought them for £44,759, and in 1889 alone for £15,377; these sale certificates are redeemed by the auction purchaser by payment in instalments. The bank owes its foundation to the 'League against Usury,' a society formed to assist the peasant against the money-lender and inspired by a few active and philanthropic men. The example is full of suggestions for India.

(3) Institutions dealing with Agricultural Credit only as a secondary matter or as annexes of other institutions.

The third class consists of the Savings banks, Landschaften, and State and Communal banks including especially the provincial Hülfskassen. Savings banks will be discussed in a special chapter; the efforts of the Landschaften (*q.v.*) are confined

to forming annexes endowed with part of their own reserves, and these annexes lend out their funds and the deposits which they attract. But operations are generally confined to members of the Landschaften proper, so that the small folk have little part in them. For the Hülfskassen, &c., see *supra* under ' Real credit.'

The German law of 1889.—This will be found translated with notes in another appendix; it is the expression of German opinion on the experience of forty years in co-operation and is the result of numerous studies, Commissions, bills and discussions in the Press and Parliament. It has of course been adversely criticised by those whom it displeases. It deals with the whole subject of co-operation in all its forms; in Germany as well as in Switzerland, there is a special law for co-operative societies, which are treated as entities (Genossenschaften) different from ordinary business societies (Gesellschaften); whereas in France and Italy, co-operative societies are treated merely as a class of commercial societies, with, however, a special section in their favour. The chief innovations of this law are—

(1) a determination of the minimum number of members;
(2) the necessity for a council of supervision;
(3) the admission of new provisions to safeguard individual members under the regimé of unlimited liability;
(4) the indroduction of liability limited either to the amount of a share or of multiples of it;
(5) a regulation of the liability of retired members;
(6) provision for audit by experts outside of the local society and nominated by the Union to which it belongs, or in default, by the local Commercial Court.
(7) permission to deal with non-members except in matters of credit;
(8) necessity for the subscription by each member of one or more shares;
(9) provisions for the disposal of profits.

This law will be further referred to in a section on ' Law,' but special attention is directed (1) to the compulsory provision of committees of supervision, (2) to that of external audit. These two provisions, the one to compel watchfulness within the society and the other to inspect it from without, are noteworthy results of German experience. There is also elaborate provision for publicity through registration in, and returns due to the Commercial Court, a provision somewhat similar to that for Friendly, Benefit and Provident societies in England and America (*see* ' Law ').

Communal banks of Alsace-Lorraine.—Before leaving Germany, a class of banks different from any yet described and arising out of the history of Alsace-Lorraine must be mentioned. These are of purely Government origin, and are based upon the fact that, while the general German system of Savings banks is that of free use of the funds by the Savings banks themselves, Alsace-Lorraine retains the French system—similar to that of England—of a compulsory remittance of all savings to the Government treasury (Caisse des Depôts et Consignations). France is almost alone in Europe in thus draining the savings of the masses to the Government treasury, and it is an increasing problem amongst economists how to avoid or counteract this drain so as to permit the general savings to fertilize general production *in situ*. This will be discussed under ' Savings banks '; the new law of Alsace-Lorraine, dated 18th June 1887 (*see* another appendix), is a German Government answer to the problem in this new province, in that it assigns a portion of the funds of the ' Caisse des Depôts et Consignations ' for the use of a number of small Communal banks, to be eventually established all over the country and destined to grant personal agricultural credit. The following description is taken chiefly from an article by M. Constant Bodesheimer in the ' Revue Suisse,' 1891.

Usury is as real a plague in this province as in any other part of Europe, and till quite recently there has been an absolute want of all credit institutions for the peasantry, so that the usurers, having complete monopoly, " were the ruin of the rural tracts, materially and morally." There were no Savings banks, for these should be established by the communes, and under a centralizing regimé, these bodies had little of the necessary spirit of initiative. A few Raiffeisen loan societies had been started, but their number and size were quite insufficient for local needs, and consequently the German Government in 1887 passed a law intended to favour agricultural credit by means of local State (Communal) banks.

The Governor is authorized, upon demand by the municipal (village) councils with the support of the largest tax-payers, to establish public loan offices, for a commune or group of communes, usually the latter; these are to grant loans at or below 5 per cent. interest—actually 4.25 at present—to peasants and artisans for a maximum period of five years; no loan ordinarily to exceed 50, or at most £100, repayments to be by instalments of not less than 5 shillings. The funds for these loans are to be advanced up to the budgeted amount by the Government Caisse des Depôts et Consignations—answering to the English National Debt Commissioners—at interest not exceeding 4 per cent. and actually 3.60.

Government grant the loan offices as State institutions many valuable privileges—

(1) freedom from taxes, stamp and registration duties;
(2) the cost of first establishment is borne by the State;
(3) arrears may be recovered by executive process, as though for Government taxes, as well as by ordinary civil procedure;
(4) as stated above, Government advances the loan funds, not however at rates of favour;

(5) the local (communal) Government officials are bound to act as accountants, but receive a salary as such.

(6) The Kreis Direktor (Tahsildar) is bound to supervise the administration.

A committee of five members administers the office, the rules being subject to the sanction of Government. The President of the committee is appointed by the Sub-Prefect (Divisional officer or Tahsildar), the others by the several communal councils; they are entirely unpaid, but have a salaried accountant, who is one of the village officials. The operations of the office are supervised by the officers of Government, in the first instance by the Sub-Prefect. The banks being communal institutions, any resident of the commune may apply for a loan; no special status or membership is necessary.

Application for loans must be accompanied by a declaration of the use to which the money is to be put—purchase of cattle, improvement of land, repayment of debt, &c.—but no loan is allowed for the *purchase* of land, the reason being apparently that peasants are apt to buy more land than they can afford to work, and to complete recklessly for land at auctions, whereas the object of the State is to develop agriculture. The office is bound to see that the loan is spent as promised: if not so spent, immediate repayment must be demanded; so also if a borrower gets a loan from a money-lender without permission of the office. No loan is granted upon mortgage, or without one or two solvent sureties equally liable with the borrower. All loans are repayable by instalments.

A reserve of at least 10 per cent. of the amounts due by the office must be formed from profits any surplus must be spent by the communes in works of public utility not otherwise provided for. Losses must be made good by the communes, but not beyond 5 per cent. of their receipts as communes. No money may be borrowed by the offices from any source other than the ' Caisee des Depôts ' without the authority of the Prefect, who may close an office if badly managed.

The loan offices are seen to be State foundations, directed and represented throughout by the State, since the latter has to look to the safety of the funds—Savings banks deposits—which it lends on personal agricultural credit. There is no provision for savings; the office is purely a lending bank, granting cheap and long credit, but carefully watching the borrower in his employment of the credit. While therefore the system does not greatly or directly tend to foster thrift or self-help, for the unaided development of which the Alsatian peasant seems unprepared, it provides capital and endeavours to see that the capital is providently and productively employed, thus indirectly fostering prudence and thrift; at the same time it is the beginning of education in business management by the villagers themselves; moreover by introducing the liability of the communes, it sows the seed of that associated action which finds its full expression in the Raiffeisen societies, and it provides a stepping stone for those unable to cross at once from isolation to solidarity.

The first office was started in November 1887; by December 1888 there were 39, serving 237 communes out of the 1,600 of the province; each office is therefore on an average maintained by six communes or villages; this development is said to be due partly to official zeal. No reports have yet been issued as to their working, but £19,650 had been advanced by the treasury (Caisse des Depôts), besides free grants of sums of £25 to most of the offices for preliminary expenses. The interest at present fixed is 3.60 payable by the loan offices to the treasury, and 4.25, free of all charges for commission or renewal, payable by the borrower to the offices.

The Raiffeisen societies proper numbered 47, mostly recent, with 5,750 members; in seven years up to 1888 they had advanced above £100,000, of which above £50,000 had been repaid. They are evidently flourishing institutions.

Mr. H. W. Wolff, writing in 1893 of his personal experience in 1892, states that the communal loan offices had been of little practical effect in spite of the care and liberality with which they had been organized; he does not, however, give any statistics in proof of this. But the Raiffeisen societies had increased to 126, all thriving and doing a large business both in granting loans and in taking savings, and with every prospect of further development. M. Davizas in ' L'Association Catholique,' writing from Alsace in 1892, speaks similarly of the great success of the Raiffeisen societies in spite of the adverse predictions of experienced men, and the luke-warmness of Government, while the official institution is, apparently, being effaced in proportion as the private institution extends: he also mentions the abortive results of frequent Government efforts to start communal loan societies in Germany, which were managed by the local councils and officials, but with such ill result that in Wurttemberg, for instance, they were obliged to be closed, while, as stated above, there were in 1891 not less than 477 Raiffeisen loan societies.

Between the Raiffeisen and Communal banks, these are points of resemblance and of difference.

Resemblance.

(1) Both deal with personal credit;

(2) They lend only for productive purposes or to free the borrower from debt; in both, the employment of the loan is controlled;

(3) The loans are long-term loans;

(4) The interest is as low as possible;

(5) Profits return neither to lenders nor to borrowers; all surplus must be devoted to works of public utility;

(6) The administration is wholly gratuitous save only as regards the accountant-cashier.

Difference.

(1) The communal loan offices are State institutions, worked with State funds only; the Raiffeisen are absolutely private in origin, administration and funds;

(2) Any inhabitant of the commune may borrow from the communal loan office; only members admitted with caution can obtain loans from a Raiffeisen society;

(3) The former is a mere impersonal corporation; the latter is an association of individuals;

(4) The former has no place for savings; the latter demands them;

(5) The former is a useful State instrument; the latter is a co-operative self-maintaining organism.

It is possible that the germ of these communal institutions may be found in a humble society mentioned by M. Borie (Le Crédit Agricole, &c.): the mayor or village head of a small commune (Sundhausen) in Alsace organized in 1867 a petty society managed by himself and members of the communal council; the funds (£240) belonging to the commune were placed in the hands of the local tax-collector, and loans were issued against bonds backed by two sureties; the bonds were not negotiable and were from 16 shillings to £12. These Communal banks, *i.e.*, societies instituted and backed by the communal organization of a village, are not uncommon in Europe. They are wholly different from the private Nidhis found in some Madras villages, but even in India some of the Kuttu-chit associations have a village, though not communal, character.

The Alsatian law of 18th June 1887 will be found translated in an appendix.

AUSTRIA-HUNGARY.—In Austria proper the Popular banks have attained great success; in 1887, 1,195 were registered, of which 651 were of "limited" and 544 of "unlimited" liability; in 1890, there were 1,489, of which 720 were limited. The large number of "limited" banks is due to the fact that the law of 1873, though differing little from the German law of 1868, permits co-operative societies with a "limited" liability; evidently this provision is approved of in Austria. These had 513,756 members, which advanced during the year £25,061,000 with an own capital of £2,845,000, reserves of £1,108,000, and a borrowed capital in deposits, &c., of £22,408,800. The debts due to the banks at the end of 1887 were £14,598,000 in short-term paper, £340,000 in loans on pledge and £7,936,600 in mortgages. It is probable that the figures as to capital, loans, &c., should be increased, as all banks did not send in detailed accounts of money matters. But it is clear that they are very successful. Details of working are not available, but seeing that the sums advanced during the year only equalled the capital and deposits, it is evident that the loans are not for three months only; the large amount in mortgages, a mode of advance scarcely used by the German banks of the strict system, also prove this. Evidently in transplanting the system, it has been adapted probably to rural requirements.

In Hungary there were, in 1887, 488 Popular banks, but the statistics are imperfect; in 1889 there were 576, of which 82 were of the Raiffeisen type. The deposits shown are far smaller than the own capital, and the loans outstanding only equal the amount of capital, exclusive of deposits. Most of the banks are believed to be "limited."

On the subject of the Austro-Hungarian societies, Mr. H. D. Wolff has more recent and fuller information. He states that in 1886 there was a good deal of discontent with some of the Schulze-Delitzsch societies, owing to poor administration, speculation, losses, high interest, &c., and that the Government therefore sent two experts to the Rhine expressly to study the practical merits of the Raiffeisen system. Their report was so laudatory that these societies were at once taken into both official and popular favour which is said to have endorsed the opinion that they form "the only (?) means known "calculated to satisfy personal credit in a manner which could be approved." Apparently this wide assertion refers only to credit for the peasantry. Backed by official and public favour, these societies are rapidly extending, and whereas in 1887 it was said that there were but few, there are now many; in Hungary they have, moreover, adopted the principle of liability "limited" to an amount which is usually a multiple—two, three or four times—of the share value; it appears that they are supported by a Central lending bank, about which no details are given. A point of interest, however, is that the provincial Government assists these societies in a small fashion, but one which proves sufficient,—"a grant of 250 florins (about £19) is made to each association newly formed to "defray its first expenses —purchase of office furniture, a safe, books and so on. And in addition to this, a loan of 2,000 florins (about £150) is placed at the disposal of every "association so formed, at the rate of 3 per cent. for not longer than two years, to provide "it with the first working funds. That moderate advance appears to have been adequate, "for the associations are everywhere showing signs of active life, multiplying and growing in strength." This subvention starts the societies; once in motion the difficulty seems to be over.

RUSSIA.—It is instructive to note the development of agricultural credit in a country less advanced than Germany. The following sketch is extracted, with a few additional facts and remarks, from Report No. 83 of the Department of Agriculture of the United States, which is chiefly taken from one of the few available detailed papers * on the subject:—

"There is in Russia a form of co-operation which has apparently proved well adapted "to the needs of the smaller class of cultivating land-owners and the more thrifty agricul-"tural laborers of that country, namely the Co-operative banks modelled in great part "after the German institutions known as the People's banks (Loan and Credit associa-"tions), which owed their origin to Schulze-Delitzsch. The emancipation of the serfs and "the measures adopted by the Russian Government to promote their subsequent "acquisition of land, created a large body of small agriculturists having an insufficient "amount of capital for the advantageous cultivation of the land, obtained by them and for "which they were gradually paying, partly out of its produce and partly out of their "earnings by their labour for larger proprietors. In the case of loans on personal security

* teles et le mouvement co-operatif en Russie, per M. Lougounine.

" the rates of interest exacted by the village usurers ran as high as 60 to 100 per cent. per " annum, and there was consequently a great need for institutions which, in cases where " money was temporarily required for productive uses, or to tide over exceptional diffi- " culties, could supply it to trustworthy persons upon reasonable terms; and as co-opera- " tion in certain primitive forms had already existed for centuries in Russia and had " demonstrated the existence of the spirit of association in that country among both the " peasants and the laborers of the towns and cities, it is not surprising that relief should " have been sought in this direction.

" The introduction of the system of co-operative banking was primarily due to a " young proprietor of the province of Kostroma, Mr. Sviatoslaw Louguinine, who visited " Berlin in order to study with Schulze-Delitzsch the workings of the system established " in Germany under the guidance of that enlightened philanthropist, and on returning " to his estate resolved to start an institution upon the same general plan, with such " modifications as were suggested by difference in the local circumstances. Organizing " a society, consisting at the outset of 21 members, incuding the priests of the churches " at the village of Ragestwenskoe, the employés connected with the management of his " own estate, and a few of the better class of peasants, he lent it the small sum of 1,000 " rubles * with which to make a beginning. This was in 1864. But as co-operative " banking was then an entirely new thing in Russia, it was necessary to send the rules " and regulations of this society to the Imperial Council at St. Petersburg, and so long " a time elapsed before the necessary approval was received that the bank did not begin " operations until July, 1866. By this time its founder was dead, but the necessary " direction for the new institution was not wanting. It remained for five years under the " control of the men who had advanced it the capital for its initial operations, this con- " trol being gradually withdrawn as the members of the society became familiar with the " mechanism and working of the bank. In 1886, 20 years after it began business, the " society had 300 members and its transactions amounted to about $20,000 a year, which, " considering that this bank was located in an isolated community, chiefly composed of " wood-choppers, was a considerable sum. In 1868 the operations of this society began " to attract attention. In 1869 several similar institutions were established in the gov- " ernment of Novgorod through the aid of funds voted for the purpose by the zemstvo of " that government.

" In 1871 the Agricultural Society of Moscow appointed a committee to prepare rules " and regulations which might serve as a general model for Co-operative banks, and the " following year measures were adopted at St. Petersburg to promote the organization of " these institutions, the Ministry of Finance authorizing the Imperial Bank to open a " credit with them and contributing 5,000 rubles to aid in extending the movement. " As regards the credit opened by the Imperial Bank, it was, for some reason, not taken " advantage of to the extent expected. From the beginning of 1875 to 1880, 202 associa- " tions borrowed from the bank and its branches 5,014,000 rubles, of which 4,532,000 had " been repaid in 1880, and nearly 500,000 remained due, this indebtedness being distri- " buted among 127 institutions.

" As members of a committee appointed for the purpose, Messrs. Hitrovo and Von " der Flith devised a very simple and practical method of book-keeping, which served " as a guide for all of the Co-operative banks. This committee became the medium of " communication between the banks and the Ministry of Finance at St. Petersburg, its " members occasionally visiting local institutions to give necessary explanations and " correct errors or misunderstandings. By 1884 the rules and regulations of 1,325 Co- " operative banks had received the sanction of the Imperial Government. Of this number, " 727 had presented annual reports to the Central committee, and from these reports it " appeared that 5,626,000 rubles had been paid by the members; that there was a reserve " capital of 620,000 rubles; that the deposits and sums borrowed amounted together to " 7,300,000 rubles; and that the loans to members during the same year amounted to " more than 22,000,000 rubles. As a rule the sums lent to members have been repaid " punctually, but in cases where the borrowers refused to pay, the banks had no recourse " but to appeal to the local communal authorities, which sometimes failed to enforce their " claims. The example of successful repudiation on the part of one debtor has sometimes " proved contagious, producing an epidemic of dishonesty, but on the whole the losses " have been very small. The results shown by the annual report for one year are cited " as a fair example of the general experience. This report showed that only one loan " in fourteen was left unpaid at maturity; that of the total amount loaned only one ruble " in 6,000 was paid by indorsers; that 1 ruble out of every 1,800 was obtained by sale of " the debtor's goods; and that only 1 ruble in 2,300 was lost. So also has it been as be- " tween the associations themselves and their creditors. As regards the loans which they " obtained from the Imperial Bank, it is stated, as the result of a pretty extended ex- " perience, that out of every 100 rubles borrowed by the associations, the amount not paid " when due was about 2 rubles, and the amount finally lost not more than 60 kopecks, or " six-tenths of a ruble; and as the loans were made at 7 per cent. there remained an " interest of 6.4 per cent. after deducting losses. It apears, too, that private lenders " have had a like favourable experience in their dealings with these institutions, and it " is said that they regard them with steadily increasing confidence—a fact which must " result to their advantage in the form of decreasing rates of interest. It is worthy of " especial note, too, that while the banks began almost exclusively with money advanced " by the provincial authorities, their operations are now mainly carried on by money

* The value of the ruble varies with the price of silver. On April 1, 1891, it was valued at 58·8 cents.

" obtained from private lenders, coupled, of course, with their own capital, composed " of the payments from their members.

" The total amount loaned by the banks to their members during the decade from " 1871 to 1880, inclusive, is stated at about 60,000,000 rubles, or, say, about $36,000,000. " For this sum they received about 3,000,000 rubles, say $1,800,000, in interest, of which " about one-third was returned to the members in the form of profits, the net interest " payments being estimated at about 4 per cent. Mr. Hitrovo, after a careful considera- " tion of the facts, reaches the conclusion that banks actually benefited their members " during the decade in question to the amount of 22,000,000 rubles, or over $13,000,000, " this having been mainly done by saving them from the necessity of borrowing from " the usurers or selling their products at a disadvantage, furnishing them the means of " getting on their feet again after unforseen accidents or losses, and enabling them to " improve their industrial processes and methods.

" As an indication that these banks possess the inherent vitality necessary to a per- " manent existence, Mr. Louguinine points out that they have existed since the year " 1866, that their number is still increasing, and that they show no signs of approaching " dissolution. A special study of the reports of 515 banks yielded him the following " result: 12 per cent. of the total number were declining; 27 per cent. had passed through " the vicissitudes of alternate progress and retrosgression, while 61 per cent. showed a " constant and regular advance. Mr. Louguinine remarks that of all forms of co-opera- " tion that of co-operative banking is the one which makes the smallest demands on the " time and attention of the co-operators. Aside from convening once a year in general " meeting to hear the annual reports and elect officers, the majority of the associations " leave the entire business in the hands of the directors. This is, no doubt, a prominent " element in such success as they have achieved, since co-operators, whose total interests " are very small, cannot be expected to devote a great deal of time to looking after them. " As a general result of his study of the Co-operative banks, Mr. Louguinine gives it as " his conclusion that the less such institutions rely upon outside aid the better is their " chance of success.

" The leading features common to the Co-operative Banking associations may be stated " as follows:—

" (1) Their object is to collect the savings of the peasants and make loans to their " members.

" (2) The great majority of them operate among the rural population.

" (3) The number of members is not limited.

" (4) New members are admitted by vote of the association in general meeting.

" (5) Members have the right to leave the association at will upon announcing their " withdrawal.

" (6) A member failing to make his annual payment within the prescribed time or " to pay a sum borrowed when due is excluded from the association.

" (7) The shares of all the members are equal and do not generally exceed 100 " rubles (say $60).

" (8) The contributions of members on account of their shares of stock are usually " 3 rubles a year, payable either at once or in monthly instalments.

" (9) A member leaving the association, or excluded from it, cannot withdraw his " share of the caiptal stock until after the expiration of one year.

" (10) The shares are not transferable.

" (11) A portion of the profits, not less than 10 per cent., is retained and invested " in interest-bearing Government securities to form a reserve fund, which, " however, is not to exceed one-third of the amounts contributed by the mem- " bers.

"(12) In case of the winding up of a bank, this reserve is to be devoted to the pur- " pose of public instruction.

" (13) The banks receive deposits of money both from their members and from " other persons.

" (14) The obligations incurred by an association may not exceed ten times the " combined amount of its share and reserve capital.

" (15) The engagements entered into by an association are guaranteed by the annual " profits, the reserve fund, the payments of members on account of their shares, " and also by the property of the members, who are liable as partners.

" (16) The banks lend money only to their members. The maximum amount which " a member may borrow is one and one-half time the final amount of his share.

" (17) Loans are made for periods of nine months, with the privilege of three " months' extension (*avec 3 mois complementaires*).

" (18) Members obtaining loans are indorsed by other members.

" (19) Each member may offer himself as an indorser to an amount equal to one- " half of his contribution, and this does not diminish the sum which he has " the right to borrow.

" (20) The yearly profits, after deducting the expenses of management and " the amount required for the reserve fund, are distributed among the members " *pro rata* on the basis of their paid-up capital.

" (21) The business of the bank is carried on by a board of three directors, subject " to the control of a council of revision, which meets monthly, and of a gene- " ral meeting of the members, which usually occurs once a year. The directors " and the members of the council of revision are usually elected to serve for " three years."

Since 1880 there has been a slight decrease in the number of these banks and of their members. They are each of small size: in 1880, out of 720 only 8 had £3,000 in capital, 146 from £1,000 to £3,000, 451 from £100 to £1,000, 111 from £10 to £100. In 1888 the average per bank was about £1,150. Ninety per cent. of the members are in a humble position, and the average loan is said to be only 57 currency rubles or about £6 at present values. The total loans granted in 1888 were not quite £2,600,000 amongst 197,447 members. It seems clear also that since only $\frac{1}{1800}$ of the sums lent were recovered by sale of the defaulters' property, the loans were not borrowed for mere unproductive expenditure. Moreover in places where they are well established, as many as one-third of the peasants are said to have joined. In 1888 720 banks had 197,447 members or 274 each, whereas Germany has 512, Austria 429, and Italy 590 per bank. On the other hand, these Russian societies are far stronger individually than the Raiffeisen societies which only average about 100 per society; both are rural, so that the Russian societies are by no means weak.

Of the two types of banks, *i.e.*, those under State patronage and those independent of it, the former are said to receive subventions from the Government, whether central, provincial or communal; such are also more or less under official control.

Mr. H. D. Wolff considers that the movement has made little way except among the Germans of the Baltic Provinces, and that it is checked by Government interference and restrictions, though that interference is with the best intentions; less than 800 survive out of 1,483 originally formed, though the movement is encouraged by Government, by nobles, and by the provincial authorities and though Russia is pre-eminently a land of co-operations (*see* 'Les Arteles, &c.,' which gives an account of Russian industrial co-operation; the villages (Mirs) are also communities with considerable corporate life and potential co-operative capacity). The nature of the interference, however, is not very clear, nor is any objectionable instance given save one, viz., that the Government forbids associations to expel members; this is obviously ill-advised, as it is impossible to enforce discipline and punctuality. The real difficulty seems to be in the characteristics of the peasantry who are said to take advantage of the beneficent provision of the civil law which protects their principal items of property from being taken in satisfaction of debt, and so evade payment. But from the quotation already made from 'Les Artéles, &c.,' it would seem that the peasants are by no means unpunctual as a rule, and that the banks do not lose appreciably by them. So far as the information goes no case is made out against Government intervention as a cause of decadence in the societies.

Mr. Lougounine in his pamphlet (1886) states that there is a certain amount of decadence due to several causes: (1) that they were received over-enthusiastically with exaggerated ideas and hopes as a universal panacea, which was of course an error, since credit can only help social evils up to a certain point; (2) that some of the banks were badly conducted and caused abuses and disorders; (3) that the banks have a weak point, viz., that if a member fails to pay, the society "has no resource but to address the administration of the commune, which frequently fails to help it"; the bad example of one defaulter generally spreads like an epidemic and may easily ruin a society (*cf.* Madras experience, *see* 'Madras Nidhis'). M. Lougounine goes on to show that out of the 959 banks in 1881, 588 were probably certain to prosper, 253 were doubtful, and 118 were certain to fail; as in 1890 at least 728 were certainly in existence and sent in returns, the decadence seems to have stopped about the point suggested by M. Lougounine, not more than 231 having perished since 1881. Probably in the first enthusiasm a large number were planted on unprepared ground and withered away when artificial protection was withdrawn; the better established ones are probably flourishing, and it is noteworthy that, whereas 1,000 banks in 1883 possessed 207,259 members, or 207 each, in 1890, 699 banks had 200,950 or 287 apiece.

It must also be noticed that, by others, decadence is not only not admitted, but a good account is given of the Russian Popular banks. M. Fournier de Flaix, in a communication to the Fourth Congress of French Popular Banks in 1882, states that the number which had obtained approval of their statutes was, in 1885, 1,325, of which 727 had sent in their returns, and that though subsequent progress was less rapid, yet that, in 1889, 1,477 Popular banks were reported as *in existence*, of which 714 had sent in returns. He states also that the Government did not favour these banks, preferring the Savings banks, by the deposits in which they are benefited, and the management of which they are better able to supervise.

Business done seems small when compared with the Schulze-Delitzsch societies in Germany, viz., less than £2,000,000 in loans by 728 societies, but as the clientèle is chiefly peasant, the business should rather be compared with that of the Raiffeisen societies; moreover the loans are for nine months with a prolongation and not for three months with prolongations; further, though the loans in 1890 were only for about £2,000,000, the annual average during the decade ending in 1880 was only about £750,000 showing a great increase of present operations.

These matters are of importance, for, if banks, of this class can succeed in Russia, it is certain that they have a far better chance in this country.

SWITZERLAND.—As stated *s.v.* Land Banks, it is the immense number of petty Joint Stock banks—about 900 in all—many with a capital of less than £400, that largely supply the Swiss peasant and artisan with personal credit. These differ in no way except in size from the larger banks, but by their proximity to the people, situated at their very doors, they are able to grant fairly cheap and useful credit. Many of these are called Savings banks, but are only so named because they receive, as deposits, the savings of all classes; they are really banks drawing in all sorts of deposits and lending them out in all classes of operation. By these means, coupled with the aid of other special banks, the peasant

of Switzerland enjoys almost too much credit, and the new institutions—Raiffeisen system—are specially intended to control the grant of credit and bring about a wise and productive use of it. The above small Joint Stock or Savings banks are here mentioned to show that it is not needful to have great banks with large capital, but that village banks with petty capital can succeed both in giving credit, in making profit, and in ousting the money-lenders who, in the words of the Swiss Home Department, in Commercial No. 9 of 1891, "are no longer of any importance as lending agents." In fact it would seem that agricultural credit—and even Real credit—can only be brought down to the peasants either by individual money-lenders or by small banks; there is in the whole of Continental Europe no large Central or even Provincial bank that deals really with the peasant, or touches more than the outer fringe of his needs. It is the small banks, alone which gather together *in situ* the local boards or savings and redistribute these driblets locally in small rills of fertilizing credit. On the one hand, the peasant need hardly, if at all, leave his village to obtain a loan; on the other the bank knows him personally or can easily ascertain his status and character. That is precisely the contrary with a large bank, which, situated far from the peasant, neither knows nor is known by him.

The 'Savings Bank' of Moutiers has a capital of £800 in 100 shares. Recently it held deposits of £84,600 or above one hundred times its share capital. It lent these funds in ordinary mortgages to one-half of the value of the property, on mortgages with two sureties to four-fifths of the value, on bonds with sureties up to £40 for six months with prolongations, at 5 per cent. interest, and on cash credit covered by mortgages. Its mortgages in 1887 amounted to £40,000.

The 'Savings Bank' of Ardesheim is a similar foundation, founded in 1876 with a capital of £2,400, now £6,000; it also obtains funds by the issue of debentures; these are (1) for £12, and upwards if desired, repayable at three months and bearing 4½ per cent. interest; (2) for £40 or upwards, at 4¾ per cent. interest repayable at the end of three years. Both classes are negotiable being payable to bearer. In December 1888, it had funds in capital and reserve of £6,480, it had borrowed £13,840, and had deposits of £11,800. It grants all classes of loans, but notably on mortgages and on simple bonds with one or two sureties, for a term of one year, with prolongation for another year; these appear eminently suited to many agricultural needs. In 1888 it had mortgages for £13,440 in 331 loans averaging £40 each, so that there must have been many below that sum. It had also lent £12,040 on simple bonds with generally one surety, cash credits for £1,2000 upon the security of mortgages or personal "cautioners," and had discounted bills for £3,240. Obviously this so-called Savings bank was just a small country bank engaging in all classes of ordinary banking operations.

It seems clear from these and other examples that small Savings banks, though receiving deposits payable at call or at not more than a few days' sight, can grant even long-term credit without danger and with profit.

There are, to some extent, co-operative credit societies; they are not specially agricultural and need little remark, except that in some cases they grant loans to members; who must be shareholders, up to twice the amount of their share-payments, without any guarantee but their sole signature: in such cases, there is—as in the land banks—an examination every six months, of the solvency of all shareholders.

The 'Swiss Popular Bank' (Schweizerische Volksbank) of Berne—not the State bank of that city—is a remarkable institution of *quasi* co-operative credit; each member is bound to subscribe one share now amounting to £40; this is payable by monthly instalments of one franc. In case of need, *e.g.*, serious losses or liquidation, each member is bound to pay *in addition* an amount equal, not to the nominal amount of his share, but to the paid-up amount; it is argued that this arrangement is just to the poorer or recently joined members. It does business with outsiders as well as with members, but accords the latter favourable rates of interest on deposits and on loans. It started in 1869 with 53 members and £105 capital; in 1889 it had 5,297 members with a large paid-up capital, savings deposits from members of £88,656, from non-members £279,496 and ordinary deposits of £179,332; out of the 5,297 members only 279 were agriculturists. These are M. Durand's figures, but Mr. Wolff's for 1891 show an immense increase in capital and members; agriculture is, however, but slightly represented. An important mode of raising funds is the bank's bonds (Kassenscheine), which are long-term bonds running for two years at 3½ or 3¾ per cent., or for five years at 4 per cent., and requiring from the holder three months' notice of redemption immediately preceding the expiry of the bond, failing which the bond runs for a further term of the same period as the original. There were bonds of this sort out at the end of 1892 for nearly £480,000 (Wolff).

This method of raising money would enable the bank to grant long-term loans, and would therefore be highly useful if the bank had an agricultural clientèle: it prefers, however, short-term loans, seldom extending beyond a year with three renewals. The bank is more an ordinary Joint Stock bank in its methods and principles; it is merely co-operative in the technical European sense, in that it allows withdraws at pleasure and has therefore a variable capital.

There is little real co-operative money credit in Switzerland, though numerous share organizations of the ordinary joint stock type (*societés anonymes par actions*).

The only other institutions requiring notice are the societies in Canton Thurgau for the supply of cattle, the breeding of which is the chief industry of the Canton. A common form of usury in Europe is in the supply of cattle on credit; and it will be remembered that Raiffeisen's first venture was a society to free the peasantry from the usury practised by cattle-dealers; similarly, in 1851 the Canton passed a law authorizing the opening of communal offices to assist the peasants to obtain cattle without risk by cash

payments. The office is formed by the decision of the villagers assembled *en masse*, who elect a committee with a paid manager; funds are provided by loans guaranteed by the commune, the inhabitants of which are all jointly responsible. A borrower should either give sureties, or else the cattle which he buys with the loan—which must not exceed £12 per head of cattle purchased—are held pledged for the amount; in any case if the cattle are sold by the borrower, or if he is found purchasing goods on credit, the loan may instantly be recovered and the seller may be penally prosecuted; the communal authorities exercise a very strict control over the due utilization of the loans. The contract must be in writing with all terms entered and a full description of the cattle bought; it is registered with the local magistrate (village Juge de Paix), who is entitled to a fee of 5*d*. (say 4 annas); only on registration does the contract come into force. These offices are found so useful that the local Government grants a credit of £60 annually, from which a sum varying from £1-4-2 to £2-8-4 is contributed towards the reserve fund of each commune where an approved loan society has been established. In return for these grants the commune must annually submit the books of the loan society for examination by the authorities. The grants are, it will be seen, very small, but are annual and go to the reserve, and seem sufficient as stamping the societies with the approval of Government; they are made from the proceeds of fees levied on certificates required to be held by peasants as to the health of their cattle. The remainder of the reserve must be constituted from profits.

In 1889 there were 35 in operation in 35 communes with a total population of 22,230, of which 16 were very small, having less than 400 inhabitants. They had outstanding advances of £16,635, and had advanced £4,478 during the year; the loans are small and are repayable by small instalments over a long period. Many of the offices have accumulated a considerable reserve, almost equal in some cases to the amount annually lent.

It is stated that the own capital, apparently shares and reserve of the 35 societies, was, in 1889, about £4,360 and their borrowed funds £13,432.

The peculiarity of the law is that it admits the pledge of goods without their delivery to the pledgee; the cattle are pledged to the society (or commune) which has lent the money for their purchase. This is contrary to the general law of pledge, but a similar practice was found in Ireland where a plough, etc., bought with the proceeds of a loan from a loan society was marked with a special stamp by the society, whose property, it remained till the loan was cleared off. The Swiss Federal Code makes a special exception in the case of cattle. The difficulty in the way of allowing pledge without delivery is, of course, that, without system of registration, movables might be pledged two or three times over, and registration is difficult and expensive. In Switzerland the exemption from the general law requires such entry on the public registers of the local Juge de Paix. As this officer is local, the registration can be effected without trouble or expense. (*See* chapter on ' Law,' *s.v.* ' Bills of sale.')

In India where, especially in the Ceded Districts, cattle are supplied on credit by breeders, such as the Nellore Reddis, such institutions would be most useful; in the Ceded Districts young cattle are sold at very high prices on the three years' credit system; each year an instalment is demanded; the ryot is seldom ready and the creditor sends man after man who, by custom, must be maintained by the debtor till the latter, in despair runs to the local money lender and gets, also on high terms, an advance to pay off his instalment. Hence this vicious system involves doubly high rates and doubly quick ruin, viz., heavy credit prices paid for by usurious advances. Of this, more hereafter.

ITALY—*History*.—The Popular banks and loan societies of Italy, though based on the same lines as, and in fact adopted from, the Schulze-Delitzsch and Raiffeisen institutions of Germany, demand detailed treatment from their success in an environment apparently unsuited to them. A country degenerated from its former greatness, dominated till of late by a foreign power, only recently united under one sovereign, poor yet burdened with taxation of the gravest character and a general conscription, with a rural population uneducated, suspicious, poor, highly conservative, and wholly unaccustomed to concerted action, except within their village limits, largely agricultural, and in immense numbers mere tenants or labourers, or at best metayers, absolutely ignorant of banking, and usury-ridden to a degree seldom approached; such, in many parts of Italy, were some of the conditions which, to theory, make popular and agricultural credit impossible. A few men, however, of whom two were in the earliest manhood, made an accomplished fact of a seeming impossibility, once more proving that all great enterprises are " impossible " at first. Signor Francisco Vigano by his writings and action did much to popularize a knowledge of popular thrift and credit. Signor Luzzatti, a young Professor of Political Economy, fired with the ideas of Schulze-Delitzsch as expounded in his famous movement himself wrote a work, now classical, on ' Popular Banks and the diffusion of credit ' and, at 23 years of age, founded in 1865 the Popular Bank of Milan, an undertaking which began with only £28, Luzzatti himself being, as he says, the " millionaire " shareholder with a subscription of £4; this bank has now 16,000 members, a capital of £330,000, a reserve of £165,000, deposits of £2,192,000 and a business (mouvment de Caisse) which in 1890 was nearly £72,000,000. But this was merely his first essay; thenceforward, like his prototype Schulze-Delitzsch, he apostolized the movement, lectured, wrote, energized and inspired the development everywhere, so that in 1887 there were 641 Popular banks, of which the statistics for 541 were; members 318,979, paid-up capital £328,000, reserve £843,000, borrowed capital (deposits, &c.) £17,109,000, loans and discounts £57,308,600. Even in the south of Italy, where the population is the most isolated, ignorant, suspicious and averse to change, the movement had largely spread, and above 300 banks had been started in that region. But besides these Popular banks on the Schulze-Delitzsch system,

there are now others on the Raiffeisen system. Signor L. Wollemborg, struck with the adaptation of the Raiffeisen loan societies to small agricultural needs, started similar institutions in the north of Italy, beginning, as in the case of all these reformers, with his own village—Loreggia—where, in 1883, being then only 24 years old, he drew together his first society; this gentleman, as devoted, eloquent and self-denying as Signor Luzzatti, has now foundde directlv or indirectly 64 societies, all of which are flourishing Here, then, is the case of a country in which an idea wholly foreign to its people, viz., that of mutual co-operative action as a foundation for credit, was introduced *ab extra* implanted and tended by the efforts of a few private individuals, till it is now a rooted and growing institution. All that has been accomplished is the result of private initiative by half a dozen devoted men, and of mutual co-operation in the localization or decentralization of credit; the State did nothing in their favour till quite recently; the institutions, as in all other European countries, were for many years outside the pale of the law; only after 1882 were they recognized and brought under the Code of Commerce; they have never been granted a single privilege, except in liberating them from the stamp duty payable on their memoranda of association and on their reception and dismissal of members; on the contrary, they bear, in common with all other institutions, very heavy taxes amounting, exclusive of stamp duties falling on clients, to at least 13 per cent. of their gross profits, and to about half the total cost of their administration. It is to the sagacity, energy, devotion and courage of a few men, especially those named, that the whole of the success is due, added, of course, to the intelligence shown by the people—not the mass but the village leaders—in adopting the new idea. "The great development "of these banks in Southern Italy where agriculture forms almost the sole livelihood "of the vast mass of the population, and where, owing to ages of ignorance and mis-"government, the means of obtaining credit were in a most primitive state, and usury "reigned supreme is deserving of special notice." (Commercial No. 42 of 1887.) This result is certainly due, at least in part, to the fostering and protective action of the Bank of Naples and Sicily; see *infra sub voce Monts de Piété* (Italy).*

The methods of these banks and societies are so similar to those of their German prototypes that no detailed analysis will be made of their organization; a brief analysis from an English Parliamentary paper will be given, the points of difference noted, some further and more recent details supplied, and the history, working and results of a few specific institutions will then be given; the Popular banks will first be dealt with, and then the Wollemborg societies or Casse Rurali.

Popular Banks (Luzzatti).—*Objects and Character.*—The following extract from No. $\frac{42}{1887}$ of the Foreign office reports explains the objects and character of these banks:—

"Like the Credit Unions founded in Germany by Schulze, the Italian Co-opera-"tive People's banks are simply associations, by means of which artisans, peasants, small "tradesmen, and, in fact, all classes of persons who, though honest and intelligent, "could not otherwise obtain credit without submitting to every form of usury, combine "to establish a local self-governing institution of credit to meet their requirements.

"They are based upon the principle of self-help, and aim at developing habits of "prudence and thrift in their members, by providing them with a profitable means of "investment for their savings, while they seek to put down usury by the facilities which "they afford for obtaining loans and advances of money at a reasonable rate of interest.

"The members being at once the proprietors of the bank and its clients have a direct "interest in its making a profit, and a sufficient inducement to keep the rate of interest "charged on loans and advances within proper limits.

The pecuniary interest of each member in the associations, through the shares sub-"scribed by him and his contribution to the reserve fund, offers a *material* guarantee for "the punctual repayment of his debts to the bank, and a *moral* guarantee is created by "the restrictions imposed upon the admission of new members, and the sale or transfer "of shares, which must be submitted to the board of directors for approval.

"In connection with this subject, Signor Luzzatti observes that 'in an ordinary "joint stock company the member's money is the main object considered, but in a co-"operative credit association the person of the shareholder is of much greater importance "than the share itself, since in the latter society the moral worth of the persons who "compose it, united as they are for the purpose of obtaining, by means of co-operation, "the credit which they would not find in other institutions, supplements and completes "the material worth of the shares, which are accumulated gradually, and even in some "cases by weekly instalments of a few centimes.'

"In order to secure the efficiency of such a moral guarantee, it is most desirable that "the members of the associations should be well known to each other, especially during "the early period of its existence, and that the bank authorities should maintain a strict "supervision over the granting of loans and advances.

"The area in which the operations of the bank are carried on must therefore not be "too extensive, so that its members may have frequent opportunities of intercourse with "it and with one another, and be able to take an active part in its management without "personal inconvenience, and Signor Luzzatti accordingly recommends the conversion

* It should be noted here that in Italy, as in France, the early ideas of agricultural credit were that it should be land mortgage credit (le crédit foncier, thypothécaire); whereas, in fact, such credit should ordinarily be reserved for long-term loans, usually for productive improvements: it is the circulating or floating capital which the country most requires for the vivification of its agriculture and its relief of the peasantry from stifling usury. Hence it is that the Popular banks, ministering to these latter needs, received no Government aid or notice till they became accomplished and successful facts. In India it seems probable that similar ideas prevail

" of branches of existing banks into independent institutions, whenever their condition " is sufficiently flourishing to justify such a course, as well as the foundation, in large " centres of population, of small independent banks, side by side with those already " established."

The banks are strictly business concerns and will have nothing to do either with benevolent grants or with benevolent loans, *except* as regards the " loans upon honour " which are sometimes granted from a small special fund and will be described below. Moreover, in the interests of the bank, but more specially in those of its clients, no loan is granted that is not for a distinctly productive purpose, using the word " productive " in a large sense so as to include loans serving all useful purposes, such as the extinction of usurious debts, the rehabilitation of a family or its house, &c. And while Luzzatti recognizes that money is frequently required for unproductive needs, he considers that the two purposes should be carefully kept apart and that, while the Popular banks should lend themselves to production, provident societies (sociétés de sécours mutuel) should supply other needs.

The popularizing of credit being a chief object, and not large profits, small loans have the preference over large ones. And in order to retain the popular and mutual character of the banks, the Commercial Code of 1882 limits the capital to be invested by any single member to £200, to be held in shares each not exceeding £4 in value; shares cannot be transferred without the consent of the society. The law also limits a member to one vote however many shares he may hold, forbids proxies except in special cases, and in other ways endeavours to prevent the tendency to convert mutual societies into mere joint stock companies of capitalists. It should be noticed in fact that the tendency to work for dividends is fatal to the true efficiency of banks as popular credit institutions, and Luzzatti considers that a maximum limit to dividends should now be fixed in order to retain the original objects of the banks.

Origin.—Many have been started under the auspices of co-operative or philanthropic institutions, such as benefit societies; these would grant small loans to members; gradually as the operations grow more numerous, a separate branch would be formed, and this would finally assume independence. Several of this class are mentioned by M. Léon Say in his well known 'Dix jours dans la Haute Italie.' In many cases however, they are due—as in the first instance—to private initiative; one is mentioned in which three young men united in 1873 with a capital of £36; in 1885 it had a paid-up capital of £13,240 with £3,310 as reserve, and assets in the way of loans of £54,421. Fifty or sixty members with a capital of £300 to £400 are considered quite sufficient to make a start. Readers will remember the numerous Joint Stock banks of Switzerland with a capital of below £400

Many again have been started as branches or even agencies of existing banks. It is a notable feature of Italian popular banking that the assumption of independence is favoured by the mother bank; branches in fact are apt to be expensive, and M. Leon Say notes that the then branches of the Cremona bank, though established some years, never paid their way. Cheap, if not, gratuitous administration is the secret of these banks, and agencies require payment; it is cheaper to excite local enterprise and independence, and thus attain a useful object and avoid a compromising loss. But in many cases, it is the increase of local spirit and of local business that leads to independence. It is the local spirit that is fostered in Italy, where autonomous local banks are preferred to branches or agencies of a central institution.

In all cases, however, success has always attended those who were content to begin in a small way and work up thence to larger operations. No centralized effort has succeeded in the case of a great institution starting with large capital to provide credit for great areas many institutions are now large, but they have grown very small local beginnings; as these develop, they may throw out branches and these in turn take root and live an independent life.

Principles and Methods.—The main difference between the German and Italian societies lies in the degree of responsibility of their members. The German Landschaften, established in the latter part of the eighteenth century upon a royal or rather autocratic decree, enforcing unlimited liability of the widest character, familiarized the Germans with the idea and practice of unlimited liability, even though the Landschaften dealt at first only with " noble " estates and have never reached the " small folk " to this day. Hence, at all events in towns and chief centres, they were prepared to accept the principle if carefully put in action, and Schulze-Delitzsch had little difficulty with his urban banks. Raiffeisen, it is true, had a much harder task in rural tracts, and was only successful after much toil, for peasants are always suspicious and probably knew nothing about the Landschaften and their principles. But in Italy, even the middle classes, at least outside of the towns, were to a great extent unprovided with banking facilities and were wholly unacquainted with the principle of unlimited liability, while the poorer were so unaccustomed to concerted action, to habits of business, and to mutual confidence, that without the initiative of educated men of a somewhat superior status, they would never have formed such associations; on the other hand, men of the better class would not have joined if their responsibility had been unlimited. Hence to induce both the superior and the industrial classes to join, the principle of limited liability has been adopted universally for the Italian Popular banks. At the same time, since the success of mutual credit societies largely depends on the character of its members, strict regulations are provided for the admission of members, so that the societies may, as much as possible, realize the " Capitalization of honesty," and attract capital not merely by their material, but by their moral guarantees. The result has been (1) a ready accession of all classes to the

banks, (2) a free influx of cheap capital, so that the banks have developed with marvellous success considering their environment and novelty.

The general methods of the banks are sufficiently indicated in the following abstract from Parliamentary Paper Commercial No. $\frac{20}{1886}$:—

" The capital of a Co-operative bank consists of—
" The *entrance fees* paid by members,
" The *shares* subscribed by them,
" The *reserve fund*,
" and any other sums set apart for special purposes.

" In order to be able to extend its operations, the bank may either contract loans— " a method largely pursued in Germany—or receive sums on deposit at interest (the " more usual course in the Italian banks) in the form of savings or of accounts current.

" A portion of the net annual profits, varying from 5 per cent to 30 per cent, is set " aside to form a reserve fund. Signor Luzzatti, in his report, expresses great satisfac- " tion at the proportion (one-third) already reached between this fund and the paid-up " capital of the banks, but he urges them not to rest until the reserve shall be at least " one-half of the paid-up capital, and to invest it in Government funds, mortgages on " land, and such other securities as can be safely and speedily converted into ready " money in the event of a crisis.

" The sum set apart for special purposes are placed at the disposal of the adminis- " trative board (or directors) for such objects as gratuities to employés, loans on trust " (' prestiti d' onore '), and contributions to charitable, educational, or provident " foundations.

" Besides the usual organs common to co-operative societies in general, such as—
" The *general assembly* of members (one-fifth of whom form a quorum),
" The *Board of Administration*, or *directors*,
" The *Committee of Control*, or *auditors* (' sindaci '),
" The *arbitrators* (' probi viri '),
" and the *business manager* and *clerks;* the people's banks also possess a so-called " ' *Discount Committee* ' (' Comitato di Sconto '), composed of the directors and other " competent members, whose duties are—
" 1st. To examine all applications for credit; and
" 2nd. To fix the maximum of credit, within the general limits fixed by the re- " gulations of the bank, to be allowed to each member.

" A special register (called ' Castelletto ') is kept, containing the names of all mem- " bers, and the amount of credit to which they are respectively entitled. This should " be subjected to frequent revisions, *e.g.*, at intervals of six months, so as to protect " the society against all possible risks.

" Objections have been raised against this system, but Signor Luzzatti and the " general association of people's banks have given it their support, as affording a great " safeguard against possible bad faith or carelessness on the part of their servants.

" In his last report, Signor Luzzatti warmly recommends that the services of the " board of directors, controllers, and committee of discount should be rendered gratui- " tously, and this has, in many instances, been carried out with success.

" He also advises that the example of those banks in which the directors, &c., abstain " from making use of the facilities of credit afforded by the institution in which they hold " office, and of those in which the amount of credit given to any member is definitely fixed, " should be more generally followed.

" The operations undertaken by People's banks are the following—
" (*a*) Granting of loans and discounting of bills of exchange, warrants, specifica- " tions of work undertaken, statements of account for goods (' fatture '), orders of public " departments, treasury, provincial, or municipal bonds.
" (*b*) Granting loans on trust (' prestiti sull' onore ').
" (*c*) Operations of credit in behalf of agriculture.
" (*d*) Granting pecuniary aid on the security of public stocks.
" (*e*) Opening accounts current upon the guarantee of two or more persons in good " standing.
" (*f*) Receiving deposits in cash.
" (*g*) ' Servizio di Cassa,' *i.e.*, undertaking collections and payments, and issu- " ing cheques and receiving bills of exchange for collection, in behalf of members or third " parties.
" (*h*) Receiving valuables on deposit for safe-keeping, or bonds, &c., for collection " of interest due on them.
" (*i*) Undertaking, *free of charge*, the management of the capital of other co-opera- " tive or friendly societies.

" Transactions under the heads (*a*), (*c*), and (*e*) can only be undertaken in behalf of " members.

" The preference is given to such loans, discounts, transactions of credit to agricul- " ture, or advances as involve the smallest sums, and in cases where the bank cannot " accede to all the applications made to it, the oldest members, or those who also possess " an interest in other co-operative or friendly societies and are not indebted, shall have " on deposit be employed in operations extending over a prolonged period, or in the " the preference.

" No operations of a speculative character can be undertaken, nor can sums received " purchase of real property, except for the purpose of recovering amounts due, or for the " site of offices, &c.

" (*a*) As regards loans and discounts, in order to be entitled to apply for such facili-
" ties a member must—

" 1. Have paid up at least half the amount of one share.

" 2. Not be actually in debt either to the bank or to his sureties on account of any
" previous loan obtained from the bank.

" 3. He must furnish, according to circumstances, moral or material guarantees
" for the strict fulfilment of his obligations.

" No member can obtain a loan for any sum exceeding twice the amount paid up on
" his shares. (A definite amount is also generally specified as a limit.)

The amount of loans referred to above must be stated in the form of a bill of
" exchange, payable at the expiration of six months, which may, however, be extended
" four months upon the punctual repayment of one-quarter at least of the original sum.

" Bills of exchange presented for discount must bear two signatures at least of per-
" sons well known and in good standing. (The signature of the person presenting the
" bill may count as one of them.) The bills must be payable not later than six months
" from the date of presentation.

" In the case of warrants, the goods deposited may take the place of the second
" signature.

" Specifications of work undertaken (' note di lavoro ') and statements of account
" (' fatture ') must be approved by the person liable for payment, and bear his promise
" not to pay except to the bank.

" No member can obtain at one time credit (whether in the form of loans, discounts,
" or accounts current) for any amount exceeding that which the general assembly fixes,
" from year to year, by the advice of the board of directors.

" (*b*) Loans on trust (' prestiti sull' onore ') are intended as an encouragement to
" the honest and industrious poor, by admitting them gratuitously to the benefits of credit
" to which they could not otherwise attain.

" Applicants must be very poor, must have a good reputation for honesty and in-
" dustry, must possess a trade or occupation, and be able to read and write.

" Most banks also require them to be members of some co-operative or Friendly
" society.

" The maximum amount of the loan is usually not more than 100 fr.

" The applicant must be recommended by two witnesses to character (' patroni ')
" who vouch for his honesty and ability to repay the amount; or if a member of a society,
" by its executive.

" The loan is granted for a short period, not exceeding six months, and repayable in
" regular instalments. In order to encourage thrift, a small interest is allowed upon
" the sums repaid.

" Many banks assign a fixed sum each year to this form of credit. This, in the
" case of the People's Bank of Milan, amounts to 40.000 fr., and in that of the Lodi bank
" to 10,000 fr.

" (*c*) With regard to agricultural credits the banks may—
" respect of them as against the tenants.

" 1. Make advances on the security of agricultural produce.

" 2. Discount to landlords the amount of their rents, acquiring their rights in

" 3. Make advances to farmers on the security of their stored produce, and crops
" whether standing or harvested, provided the landlord waives his rights in favour of the
" bank.

" These transactions, as also any ordinary loans or discounts granted to persons en-
" gaged in agriculture, may be for a longer term than was stated above, but in no case
" for more than a year; and the amount of capital to be employed in such transactions
" should be determined each year.

" (*d*) Advances upon security of bonds issued or guaranteed by the state, or of mort-
" gages on land, may be made for an amount not exceeding four-fifths of the value of the
" securities.

" The advances must be for not more than six months, but this term may be ex-
" tended.

" Should the value of the securities pledged depreciate 10 per cent or more, the
" depositor must either refund a portion of the sum advanced or furnished additional
" security.

" Provision is also made for the sale of the securities in the event of failure to repay
" the advance.

" (*e*) Accounts current upon guarantee cannot exceed a definite sum, or be granted
" for a longer term than two years.

" (*f*) Cash deposits can be made withdrawable by means of cheques, pass-books of
" savings, or interest-bearing bonds terminable at a fixed date.

" The interest on the amount of deposits, whether of savings or in account current,
" in hand at the end of December each year, is added to the capital.

" (*g*) As regards ' Servizio di Cassa,' the People's banks undertake collections and
" payments in behalf of members without charge; and issue cheques and cash bills of
" exchange, for members or non-members, on payment of the charges and the ordinary
" amount of commission.

" (*h*) Bonds and stocks, deeds or documents, and other valuables are received for safe-
" keeping upon payment of a commission. The banks also undertake to collect the interest
" on bonds, &c., in behalf of the depositors.

" The recent rapid growth of the People's banks in Italy may be attributed partly to " the advantages granted to them by the new Commercial Code,* which include the " gratuitous publication of such of their acts as must by law be published, and exemption " of their acts of incorporation, &c., from stamp and registration fees.†

" But besides this they have received great encouragement from the principal insti- " tutions of credit in the country.

" The chief banks of issue, especially the National Bank and the Bank of Naples, by " encouraging the foundation of new co-operative banks, by nominating many of them " as their correspondents, and by granting an abatement of 1 per cent on the ordinary " rates of interest charged in the market to those which comply with the regulations laid " down on the subject for their guidance, have contributed greatly to this result.

"In three years the number and value of the transactions effected by the Bank of " Naples with People's banks at this reduced rate of interest amounted to—

Year.	Number of transactions.	Value.
		Fr.
1883	7,581	4,249,348
1884	23,767	14,674,364
1885	104,990	151,124,083

" On this subject two articles by Signor Luzzatti, published in the ' Nuova Anto- " logia ' for February 1 and March 1 may be consulted.

" Finally, in his report to the association of People's banks Signor Luzzatti mentions as encouraging signs for the friends of co-operative banking in Italy—

" 1. The relations established between some of the banks and some of the principal " working men's friendly and mutual aid societies.

" 2. The spread of popular credit, especially in Southern Italy.

" 3. The gradual lowering of the rate of interest and of the commissions demanded.

" 4. The increase in transactions of credit to agriculture, and the experiments " made to facilitate special advances to farmers for important improvements."

The details may be gathered from the model Articles and the rules of business which are translated in another appendix.

Clientéle.—It is urged against these banks that they do not provide for the needs of agriculture. That is partly true, for the loans are generally given by short term bills, susceptible however of two or three renewals, and Signor Luzzatti proposes to overcome this difficulty by raising money on long term debentures and lending it out on similar terms. Nevertheless the statistics as published show a clientéle of agriculturists very similar in proportion to that of the Schulze-Delitzsch banks in Germany. In the German banks in 1892, 30 per cent were peasants and small cultivators, and 3.2 per cent were agricultural labourers—in all exactly one-third were of the agricultural classes. In Italy particulars were obtained in 1889 of the clientéle in 1887 of 399 banks; these had 234,073 members, of whom 52,085 or 22.25 were petty proprietors, tenants and metayers, 15,841 or 6.77 were larger holders or tenants, and 9,708 or 4.15 per cent were agricultural labourers—in all 77,634 or 33,17 per cent. or practically one-third. Moreover the Italian banks are much newer than their German prototypes, and as such have naturally an unduly large urban clientéle.

In 1876, 1880 and 1887 the percentage of agricultural members was as follows:—

Year.	Large agriculturists.	Small agriculturists.	Agricultural labourers.	Total.
1876	6·40	16·80	3·20	26·40
1880	6·90	19·08	3·16	29·14
1887	6·77	22·25	4·15	33·17

This shows a steady increase in the ratio of agriculturists to other members. In Venetia the number of small agriculturists alone rose in 1887 as high as 36.38 per cent, showing that nearly half the clientéle was agricultural, and in many of the more rural banks the proportion is considerably larger as will be seen below. But the figures show how much the banks have yet to do for rural credit in Italy; all the loans are short and small, and the immense mass of small agriculturists, who in Italy are generally tenants and metayers rather than proprietors, and agricultural labourers, have yet to be reached.

General Statistics.—M. Jannet, writing in 1889, states, in round figures, that there were then 705 popular banks, with a clientele of half a million, own capital (without reserve) of nearly £4,000,000 and deposits of £20,000,000. In 1887, the figures given for 541 banks, out of 641 in existence were, members 318,979, bills discounted, loans, &c., £57,000,000 own capital and reserve £4,160,000, deposits, &c., £17,280,000. This is a very large business, and the one-third or more of agriculturists must have obtained considerable sums as their share. Moreover, as will be seen under ' Loans,' the actual business is probably larger, for the figures in 1887, for only 290 out of 608 banks, showed business during the year of above 49 million sterling. The Bulletins show that many banks do not send in full returns.

For 1888 instructive figures are available in the Bulletin of the Minister of Agriculture, Commerce and Industry, as condensed by M. G. Francois in the Journal des Econo-

* *See* Code, Article 221. † *See* Code, Article 228.

mistes; there were 692 banks with a capital of £3,665,480, of which £3,439,120 was paid up; there were deposits, including savings deposits of £17,566,520. During the year advances were as follows: loans on pledge were £970,520; ordinary loans and discounts £55,743,120. These figures are subject to the above remarks that the real figures for *all* banks are probably larger. Discounts are not all separate transactions, but a vast number are renewals, for though bills of terms up to six months are accepted by the popular banks, those exceeding three months are not generally re-discounted by the ordinary banks; hence, since agricultural loans must usually exceed that time, these three months' bills have to be renewed at échéance by the society. It has been supposed that Northern Italy, where the inhabitants are highly intelligent and business-like, would practically have a monopoly of these banks and that the south, where agriculture is almost the only industry, where the cultivators are very ignorant, suspicious, more indolent and poor than in the north, and where "usury reigned supreme," would be almost destitute of them. On the contrary, the six provinces south of Rome including Sicily, have 362 banks as against 326 in the nine northern provinces, though the latter was the birth place of these institutions; Compania in fact has 109, a much higher number than any other province in Italy; Apulia comes next with 80 and Sicily fifth with 61. It is true that the capital and reserves of the nortern 326—which exclude Sardinia—are £2,976,520 as against £1,400,760 for the 362 southern banks, but these latter are much newer, most having been founded during the last 15 years; moreover if Lombardy, which accounts for just half of the capital and reserves, largely by reason of the great Milan bank, be excluded, there is no great disproportion. In transactions there is of course a marked difference. Discounts in the 326 northern banks were 1,435,946 for £41,258,770—of which the Milan bank accounted for over £4,000,000—being an average of about £28 each; in the 362 southern banks they were 785,102 for £13,261,010, being an average of nearly £17 each. The average here does not disclose the full state of affairs; as shown under 'Loans' nearly half the number of transactions are below £8 and about one-fifth were below £4.

The rates of interest varied as follows: from 5.50 to 10 per cent in Sicily, from 6 to 9 per cent in the other southern provinces, and from 4.50 to 7.50 in Lombardy; the rate on loans was slightly lower than for discounts. Interest granted on deposits was 3 to 5 per cent in Lombady, 3½ to 6 per cent in Campania and 3 to 6½ per cent in Sicily. Generally speaking, the interest on loans and discounts is from 2 to 4 per cent higher than interest granted on deposits, the difference being smallest where rates are lowest and business largest in volume. In 1886 S. Luzzatti pointed out that the preponderating rates on deposits including savings were from 3 to 5 per cent, those on savings being usually rather higher than on ordinary deposits; interest on loans granted and discounts, &c., chiefly ranged between 6 and 8 per cent.

The above statistics are full of suggestion and encouragement for this Presidency, where the conditions of credit for the ryots are far better than in Southern Italy. In gauging credit by the size of loans it must be remembered that, allowing for the difference in the value of money, a loan of £4 to £8 in Italy represents loans of (say) Rs. 15 to 30 or even less, in Madras; a very small class of business.

Similar figures are found in the Bulletin for 1890 published in 1893; the number of banks had gone up to 738.

Shares.—Every member must subscribe to one or more shares; it is usual to require that these should be paid up by about 10 monthly instalments. A curious and unexplained fact is that, though the members can withdraw at will, taking with them their share values, and though shares are not transferable, they bear, in the case of the older and more successful banks, a high premium, *e.g.*, a share of £2 may be issued at £3 and even higher. Apparently this premium is not an open market value, but a premium or entrance fee, demanded and obtainable by the bank by reason of its high dividends, *e.g.*, the bank at Lodi pays about 12 per cent., and its shares of £2 are quoted (1892) at £4-4-0.

Funds.—These are chiefly derived from shares and deposits; in 1886 the reporting banks had £2,710,560 in paid-up capital, £810,320 in reserves, £3,497,040 in ordinary deposits, £7,904,560 in savings deposits, and £1,580,360 against deposit receipts (Buoni fruttiferi). Hence the deposits were nearly four times as large as the capital and reserves. Savings deposits draw usually a slightly higher interest than ordinary deposits, as the banks desire to encourage thrift and the fructification of the immense petty savings of the poor. This is well effected; the ordinary deposits were held in 36,403 accounts or nearly £100 apiece; the savings deposits were held in 217,524 accounts of £36 apiece, and 49 per cent. of the accounts were for sums below £4: the banks are savings banks as well as credit banks. The Buoni fruttiferi are simply deposit receipts for a fixed term of from 3 months to 2 years and bear interest of from 3½ to 5½ per cent.; they are issued from £20 upwards and the 11,873 of 1886 averaged £132 in value. The rules of business sufficiently indicate the method of issuing them. In 1890 the paid up capital had increased by about 36 per cent., the reserves by about 20 per cent., and the deposits by about 30 per cent.

Signor Luzzatti in his reviews of the work of these banks, states that funds are obtainable in any quantity, and that the ordinary banks are only too willing to lend money at moderate rates. The banks of Naples and Sicily are very forward in their offers to discount at favourable rates and to supply the funds for the first start, but these are banks of a charitable foundation formed from the amalgamation of several Monti di Pietá, and have no share capital on which to pay dividends; hence the generosity of these offers. But the Savings banks readily lend their funds to the popular banks, by granting them loans, taking up their "Buoni," and opening cash credits with them.

As the banks re-discount their bills, funds are continually returning to them for fresh work; in 1886 the 16½ million sterling of available funds did work to the amount of about 49 million sterling; in other words, they were turned over three times.

For funds to be specially employed in financing Agriculture *see* 'Agricultural credit.'

Loans.—The general methods have been mentioned in the quotation from Commercial No. $\frac{0}{886}$, and fuller details of the methods will be found in the Articles and rules of business.

The chief forms of credit are ordinary loans, discounts of bills of exchange, advances upon the pledge of securities and cash credits. For 1886 the following are the figures:—

Class.	Number.	Total value, pounds sterling.	Percentage.	Average value, pounds sterling	Number of banks reporting.
		£		£ s.	
Loans	622,192	12,485,442	28·24	20 1	280
Discounts	1,089,898	33,417,390	54·02	30 15	292
Pledge	88,386	1,005,133	10·27	11 5	233
Cash credits	21,092	2,531,256	7·47	109 0	127
Total ..	1,821,568	49,439,221	100·00	..	..

It will be remembered that loans are for short terms (six months) usually on the pledge of shares with other security, and the debt bond takes the form of a bill which the bank discounts. The other discounts are ordinary bills of exchange, each with two good signatures including that of the member presenting it. Cash credits are growing in importance. It will be noted that the figures refer to less than half the number of banks (608) then in existence, so that the total credit given by all banks must be far greater.

The values of the loans were generally low; 30 per cent. absorbing 3,86 per cent. of the total amount were for sums below £4 and 24.54 per cent. absorbing 7.37 per cent. of the funds were from £4 to £8; for sums from £8 to £20, the percentage was 22.65 and 15.17 respectively. From 1876 to 1886 the percentage of loans below £8 steadily increased from 39 to 54.70, showing that a poorer class, probably rural, was being reached.

Bills of exchange below £4 absorbed 18 per cent. (196,164) of the number and 1.67 (£558,068) of the funds, so that the average of such bills was below £3, and an immense number must have been much smaller (it will be remembered that even the Bank of France discounts bills for 10 francs); 20 per cent. with 4.21 of the funds were from £4 to £89. It is clear, therefore, that bills of exchange can be profitably drawn and discounted for very trifling sums, and thus enable small folk to obtain small loans, while enabling the bank to keep its portfolio in a negotiable form.

As might be expected, the smaller loans and discounts are found in the southern provinces, which are poorer and more purely agricultural than the northern.

The reasons for the selection of bills as the medium for loans are several: *firstly*, to secure liquidity of assets, a mobile portfolio; *secondly*, to ensure the proper use of the loan; a bill is supposed to represent a genuine business transaction with a productive foundation; moreover, if the proceeds were doubtfully used, or the borrower's reputation became tarnished, it would be easy to withdraw the loan by refusing renewal; *thirdly*, since renewal was only granted on repayment of a proportion, money was constantly coming in; *fourthly*, some slight profit is obtained by the bank on rediscount, as its own endorsement permits of discount at easier rates. Hence the business of the popular banks is done almost entirely by bills of six months, a fact which may fit it for the current needs of agriculturists, but not for such needs as land improvement, the purchase of cattle and implements, &c.

Mortgages appear by the published balance sheets to be accepted, but not largely, and chiefly as security for cash credits.

Interest.—The rates of interest vary considerably: "that which would justly be considered usury in the north, where industry and trade are well developed, is but a fair profit in those regions of the south, where the farmer was obliged to pay from 50 to 100 per cent. and even more only a few years ago." In 1885 the rates varied from 4½ per cent. per annum, chiefly in the north, to 10 per cent., chiefly in the centre and south; the maximum was reached in but very few cases, 7½ and 8 per cent. being much more general. In addition, however, a commission is often charged of from $\frac{1}{10}$ to 2 per cent. for general expenses. As the banks obtain strength, rates are usually lowered; in three years 40 banks reduced their rates. Interest on deposits runs from 2 to 6 per cent. The figures for 1892 support the above.

Profits.—The net profits are from 8 to 9 per cent. on the paid-up capital; in 1882 figures were as follows: gross profits of 139 banks with a paid-up capital and reserve of slightly over £2,000,000 were £337,000; of this about £80,000 were paid in salaries and sundries, £48,000 in direct taxes, £11,500 in covering losses; net profits were therefore £188,500, distributed as dividends £150,000, reserves £20,000, fees to directors £3,000, gratuities to staff in addition to ordinary pay £9,000; benevolent fund £2,000, carried over £4,500. It will be noticed that fees to directors were only about 1.6 per cent. of the net profits.

For 1886 the following figures, published in 1889, are available: 397 banks reported gross profits of £557,210, from which were, amongst other matters, deducted £167,219 for cost of administration, £73,048 (331 banks) for taxes; the net profits were £299,536, of which £213,435 were distributed as dividends to the members of 343 banks; the remainder was devoted to the reserves (£51,901), to the directors in 103 banks only (£8,222) extra gratuities to the employés (£15,532), works of beneficence (£3,080), and the remainder was carried over. The percentage of dividend to paid-up capital varied from 2 per cent. in Sardinia to 10 per cent. in Lombardy, the average for the whole kingdom being 8.26. It must be remembered that this large dividend returned to the members who were largely borrowers, for in 541 banks there were 318,979 members, while the loans were—in a smaller number of banks—622,192, besides, 1,089,898 bills discounted and 88,386 advances on securities. Hence, though dividends are large, they return to a great extent to the borrowers. The result is that the older banks reduce their rates as their reserves increase. As 40 banks did not divide profits, but passed them bodily to the reserves, the dividends actually distributed by 343 banks was considerably higher than that given, which includes all the 383 banks reporting.

The cost of administration was made up of £92,574 to employés and £74,645 for the miscellaneous expenses of office, for office rent, stationery, postage and all other miscellaneous matters; it does not include, unless perhaps occasionally, any fees to directors or others. The only cost for direction is to be found in the trifle, £8,222, allotted in only 103 banks for this purpose. This is the peculiarity of Italian popular banks; the administration, though skilled, is very largely gratuitous; in the annual statements of the great banks of Milan, Bologna, &c., where the turnover is by millions sterling, and the annual profits tens of thousands, the column for directors' fees is absolutely blank, as it is also for other banks in five out of six cases. It is a marvel that about two million loans, discounts or advances for nearly £60,000,000 should be effected almost gratuitously so far as the skilled direction is concerned.

Government Intervention.—As stated above, these banks are due solely to private initiative, whether that of individuals or of societies (provident or savings). Government have done nothing for them, and did not recognize them until 1882, when provisions granting them a distinct status were entered in the Commercial Code of that year, with the very minute privilege of freedom from stamp duty on their memoranda of association and on the documents for admission and exclusion of members. No other direct privilege whatever is given either by law or by Government. An indirect benefit, in the shape of enforced publicity, is conferred by the requirements of the Minister of Agriculture of a monthly statement of their business, which is published in the Bulletins of the department.

Taxation.—In common with other banking institutions and to a large extent owing to the forced publicity of their accounts, they have to endure very heavy taxes. Luzzatti states that these, exclusive of all stamp duties on their operations, amount to about 13 per cent. on the gross profits; in 1882 taxes were, on the whole of the banks reporting, £48,000 out of gross profits of £337,000 (see *supra*) or above 14 per cent.

M. Leon Say gives much higher figures; *e.g.*, in Cremona, the shareholders divided on a capital of £84,000, net profits of £8,000, which would have been £13,760 but for £5,760 of taxes, viz., Richezza mobile (income-tax) £2,706, Richezza mobile due for members £2,642, house-tax £27, tax on loans granted £46, tax on shares £96, tax on the paper owned by the bank £242, profession tax £8, weights and measures £1, trade tax £8. The Richezza mobile is 13.2 per cent. now (1894) to be raised to 20 per cent.

M. Rava states that in 1889 the profits of the Popular Bank of Bologna were £6,800 which would have been £11,600 but for the taxes (chiefly income tax on the amount of deposits—tassa sulla richezza mobile) of £4,800.

Agricultural Credit.—It being admitted that agricultural loans for production must usually be for terms exceeding three months, it remains to be seen how the Italian popular banks have met the difficulty. A certain amount of floating funds can always be devoted to loans of fairly long term as shown by the investments of savings and other banks. But where banks are principally agricultural so that all borrowers want long loans, there is no continued influx of short-term payments as in a bank of mixed commercial and industrial business; hence means must be taken to obtain funds also on long terms. The ordinary long-term deposit (Buono fruttifero) is a usual means, but the Italian popular banks have endeavoured to provide agricultural debentures issued, as in the case of the French and German land mortgage debentures, against bonds executed by the borrowers, but differ in that they have no material guarantee in the shape of a land mortgage. They are promissory notes bearing interest, issued by the bank on its own security, *plus* that of the borrower and his sureties, and payable to bearer at maturity which may be for various periods. It is found that even individual banks, *e.g.*, Asolo (*see* De Laveleye), can place these bonds, but apparently it is, in such cases, generally with a Savings or other bank with which the popular bank has business relations. In this connection the debentures issuable by Loan Societies under the English Loan Societies Act of 1843, and under the Irish (Charitable) Loan Societies Act of 1843, may be adverted to (*see* 'Loan Societies').

But by utilizing the group formation (*see* 'Group') federated banks are able to issue these bonds—called 'Buoni di Tesoro dell' agricoltura a scadenza fissa' or agricultural debentures of fixed term—under the guarantee of the group. The banks of the Province of Trevisa united in 1879 in a syndicate, to issue, under the supervision of the group, but under the responsibility of the individual bank, debentures of fixed term; these are in series and on printed forms, and are issued by each bank under its usual

signature as a guarantee, and with the countersignature of the President of the group as a token of its regularity and as additional guarantee. They bear interest at 4 or 4½ per cent. and are usually of £20. It is found that the public take them up, but the usual method is to place them with a larger popular or Savings bank, for which they form a first-class investment.

The funds obtained by these bonds are devoted to agricultural productive loans of one year and upwards; when a member desires a loan, he applies to the bank stating the nature, &c., of his land, and of the proposed improvement, the guarantees he offers and the period for which the loan is required; the case is then examined by a Committee of Experts (Probi viri dell' agricoltura) and if their report is favourable, the money is advanced as soon as the bank has placed a debenture for the amount. Every four months, the bank examines the progress of the intended improvement; if unsatisfactory, immediate repayment can be demanded.

The other groups are said to be following the example of that of Trevisa.

But the latest reports show that these debentures are not greatly successful; it is difficult for small isolated banks to place them successfully, and the several banks forming groups are disinclined to pledge their credit for each others operations. The method seems inferior to that of the German Central Bank system. M. Levi recognizes this and recommends that certain great banks, such as those of Naples and Sicily, should accept the paper of the small banks and thus place them in funds, such paper, with their own signature, being then easily marketable. It appears that this very duty has been undertaken by these banks, the former of which offers to discount the bills of popular banks recognized by it as its correspondents at 1 per cent. below the ordinary market rates; the statistics and rules of business are not available at present, but in 1885 it effected 104,990 advances to the small banks for the sum of £6,044,963. The possibility of this favourable rate is due to the fact that the Bank of Naples is a charitable foundation with no capital or dividends. But at ordinary rates similar business may be done to any amount; the Popular Bank of Milan is in correspondence with 320 smaller banks, and did business with them for £8,930,000.

The rules framed by the Trevisa group for the issue of these debentures will be found in another appendix. The statistics relating to agriculture—so far as known—are given above, *sub voce* 'Clientéle.'

Other Results.—The educational result cannot be measured, but may be imagined; the above are all autonomous banks, many very small, yet working independently in rural tracts.

One result must be mentioned, viz., that the considerable dividends show that the rates of interest are at least sufficiently high; in fact, it is the greed for dividends which is said to be spoiling the institutions "especially in the villages." It is even asserted that many of the newer banks, as elsewhere, are "co-operative" only in name, and in reality are mere usurious firms.

Another notable result is that these banks retain and distribute *in situ* the savings of their several localities, a result of immeasurable value; another, that wherever they have been started, they have successfully combated usury by offering money at 6 instead of 60 per cent., at the same time carefully supervising the use to which the loans are put; usury is met at close quarters, and the means and safeguards of credit are brought to the very doors of the peasants.

Another notable result is that they everywhere form "centres of economic progress"; they initiate and assist co-operative societies or stores, agricultural associations, &c., while the larger banks from their profits endow, support or assist many works or societies of popular benefit or utility. M. Rostand gives a list of 30 such societies assisted from the profits of the Popular Bank of Milan, and this, on a smaller scale, is the general rule.

Relation with Savings Banks.—As will be explained below, Savings banks in Italy are free to dispose of their funds at their own will. They play an important part—as in Germany—in assisting popular banks and loan societies either by directly lending their money, by accepting and discounting their paper, or by buying their debentures. In some cases the popular banks are the direct offshoots of Savings banks, the directorate of the latter seeking to provide credit for their clients without themselves dealing directly in credit.

Branches and Agencies.—The feeling in Italy is against the system of Central banks with numerous branches; the tendency is to the foundation of small autonomous banks, affiliated to particular groups, and, when branches are formed, it is usual to encourage them to assume independence as soon as possible. But branches and agencies are nevertheless not infrequent, and supply the means whereby the larger banks in cities place themselves *en rapport* with the rural classes and educate them in the methods and objects of credit. It is found that at first a bank can establish an agency and thus spread a knowledge of the bank's methods, collect small business, and accustom the peasants to deal with the bank; the agency presently developes into a branch with power to lend as well as to collect and to manage much of the ordinary business, and in course of time, the branch, as it acquires experience and solidity, becomes an autonomous bank.

Agencies at first are usually confined to collecting the dues of the banks; they are also established as offices for the receipt of savings (*cf.* Savings banks in Germany), and they receive requests for admission to the society. The agent is usually paid, and *per contra* gives security, and it is customary to appoint a supervising committee from amongst the society's local members. He is bound to furnish every five days a statement of his collections, and of his cash in hand and of other matters as provided by special rules. Demands for admission when made to the agent are sent with his report and that of

the local committee to head-quarters; so also the requests for loans and discounts, and it is usual for the borrower to execute his promissory note in the presence of the agent. In all reports regarding admission on loans, the local committee of supervision forwards its opinion with that of the agent.

The officers of the head-quarter office frequently inspect the agency at irregular intervals.

The rules of the Bologna bank for these local agencies will be found in an appendix.

Branches differ in status according to the ideas of the establishing bank, *e.g.*, those of Lodi are little more than agencies, but have the power of granting loans up to £12; beyond that sum they report to head-quarters; the members of the branch directorate are chosen by the directors of the chief bank. Those of Cremona have a directorate elected by the local members, and have larger powers of local action; the local losses of one year must also be made good from the profits of the next; losses not made good fall entirely on the local members. The Lodi bank considers that it is so difficult to conquer the suspicion with which the peasants regard new departures, and to overcome the distrust which they would have felt in case of any losses falling upon them, that rural credit might have been a mere hope to this day had they adopted the ideas of entire autonomy and responsibility for their branches. On the other hand the Cremona authorities, following closely the ideas of Schulze-Delitzsch and the genius of the Italian Luzzatti system argue that the great object is to educate each local centre in credit and business methods and in the ideas of autonomous co-operation, and that the object of branches should therefore be to train the local members in managing their own offices, and to encourage them to assume independence as soon as they feel themselves firm in their position, while the *quasi* independence of status, and the insistance throughout of separate responsibility and to some extent separate balance sheets, render secession a matter of simplicity.

A translation of a note by the Lodi bank on the subject, and of another note by that of Cremona with the rules of both banks as given in Signor Levi's Manual, will be found in an appendix; a brief abstract will be here given, intended merely to show the importance of branches, their true work and their general methods. It will be seen that by the system of agencies, branches and Savings bank branches, Co-operative banks in Madras, Trichinopoly, Bellary, &c., might readily extend a knowledge of their systems and their useful operations to surrounding villages, and thus gradually create a complete system, born of solid experience, and extending by natural development from a vivifying organism.

Lodi began its rural work by preparing the ground; for two years its friends lectured frequently in various centres, explaining the methods and demonstrating the utility of the bank's operations. These lectures had good results and six regular branches were started by 1869 under the form of affiliated local communities, directly dependent on the Central bank; this was contrary to the received Italian ideas of almost autonomous life and local administration. These six branches were established in villages or small towns of not more than 6,000 or 7,000 persons, usually possessed of a market (*cf.* 'Scotch Banks') and largely inhabited as in Southern India, by agriculturists, insomuch that about three-fourths of the members in 1880 were agricultural. Money was advanced generally by loans and not by discounts; they averaged from £21 to £36 according to the branch, and were largely used in buying cattle and in paying the taxes, especially when a farmer desired to hold his produce against a rising market. All the branches were not profitable, and one would have been closed, but that the Central bank was making large profits and decided to defer closing the branch, "as the small cultivators would "then have fallen without a chance of rescue, into bondage with the usurers." The work done in the mere grant of loans was very large, but the branches were otherwise useful. In the first place they served as places for the receipt of savings and therefore for the development of thrift, *secondly*, they served as places of co-operative education; *thirdly*, the local committees provided the bank with information when loans were demanded; *fourthly*, they enabled the bank to act as distributor of aid to the distressed when the great floods of 1878 ruined so many families; and *fifthly*, they excite progress in other directions.

The administration of the branches was effected by a small local committee selected by the directors of the bank; the committee obtained the use gratis of the local communal office for their business, their meetings were weekly, and the only paid employé was a secretary-cashier appointed by the bank, but nominated by the local committee. The branch receives members, requires payment of the shares, grants loans and discounts, receives deposits whether for members or non-members, and performs such other duties as are appointed by the central directorate; the above operations are conducted under rules prescribed by the bank. Loans, &c., up to £12 are granted definitely by the branch; beyond that it reports to the bank. Further rules are laid down for the accounts to be kept, &c.

As Savings banks the ordinary branches receive deposits, but nine other branches are Savings banks only; these are supervised by a small committee, who, with the treasurer, are specially selected as men of high reputation; these are all unpaid, but if the treasurer has to give security, he may get pay.

The operations of the Savings banks are supervised by the Central council of supervision, who are obliged to inspect all the operations. The duties of the local committee are not confined to the receipt of deposits, but it is expected that they shall promote thrift in every way, and make public the methods and usefulness of the bank. The bank usually grants 50 or 60 small prizes annually to those small depositors who have been most regular in making weekly deposits.

Lodi and its branches afford a good example of usefulness of the banks in times of general distress. After the floods of 1878 large subscriptions were raised in aid of the distressed; a good deal of the money was entrusted to the banks for distribution, as they were in intimate relations with the poor; they obtained sanction to issue these sums as loans and not as charitable gifts, adding thereto a larger sum of their own. At Chignolo-Po, a branch of Lodi, the floods were very severe; the local communal council gave £800, the relief committee £200, and the bank added £2,000; this was distributed through small local committees under the branch, in loans without interest or at very low rates, not exceeding £16 for the purchase of cattle and the removal of sand from the flooded areas. Within three years every lira of this was repaid, so carefully had the money been distributed, and so grateful were the peasantry for the opportune aid of their neighbours.

With the aid of its branches, the bank has been able to promote a Society for the Assurance of Cattle, which is said to be highly useful and appreciated.

Cremona, as stated, proceeds on somewhat different lines. The branches work on their own responsibility and each has its own balance sheet; all profits of the bank and its branches are lumped together, but if any loss has occurred in any bank, that branch bears a *pro tanto* reduction of its dividend, which may, however, be spread over several years. The branch has its own general meeting, its directorate elected by the local members, but presided over by a manager who is the nominee of the bank and has powers of veto subject to appeal to the bank. The employes are appointed solely by the bank. which must however, consider the proposals of the branch. Requests for admission to membership are received by the branch, but disposed of, on their report, by the bank. The branch can only deal with members on its own register and receives and disposes of all applications for advances, subject, however, to the action of the manager as the representative of the bank.

Notwithstanding the *quasi* independence of the branches, the central administration closely supervises their working, not merely by the periodical returns required, but by frequent and sudden inspections in which the stability of the branch and the solidity and prudence of its officers and manageme nt are specially looked after. These principles accustom the branches to business methods and to prudence in administration, and thus fit them for eventual autonomy.

Groups.—As stated above, the popular banks of Trevisa have necessarily imitated the German banks in federating themselves in groups while preserving strict independence. Seven other groups have since been formed, of which three are in the south. Each group is centred on the bank of most importance; two delegates from each bank form a general assembly, which elects certain of its members to form, with the Presidents of the several groups, a central committee; this collects and publishes statistics, and a journal organizes local congresses, supervises, but not with authority to interfere, all federated banks and examines the financial, &c , condition of each bank. There is at least one inspector per group paid by each group; his sole duty is the inspection and audit of the accounts and operations of the banks, and the advising of them as to their requirements. The general expenses are met by a contribution from each bank. Moreover, each group guarantees, in the second instance, the debentures issued by the individual banks with the countersignature of the group President.

The Central committee also acts as an intermediary in placing the surplus funds of a bank with any other of the federated banks, and even aids those in temporary need from its own reserve of £4,000. In placing surplus funds, the following advertisement from the Central Journal ('Credito e Co-operazione') gives the method:—

"A bank having £3,200 surplus, wishes to invest it at 5 per cent. for six months "with faculty of renewal. Associated banks are invited to apply to the Central com- "mittee."

Twenty-five or thirty banks accordingly applied, and the Central committee having full information of the position of the applicants through the group, presidents and their inspectors, were able, within a week, to suggest to the advertising bank a safe and satisfactory allotment of its surplus.

Here then is a complete though not yet fully developed organization in which decentralization and local autonomy are completely preserved, yet combined with federation, mutual knowledge and support.

Specific Banks.—Some banks have been vividly and lucidly described by M.M. Leon Say, E. de Laveleye and E. Rostand, and it will be well to draw briefly upon their accounts. M. Say visited North Italy in 1883, M. de Laveleye in 1884, and M. Rostand in 1890.

The Popular Agricultural Bank of Milan—not to be confounded with the great Popular bank—has (1883) 906 members with a capital of £9,500; its Savings department has 886 accounts, and it lends these deposits and its capital to its members only; on 31st December 1882 it had bills for £28,500 in its portfolio. The pass-books of the Savings department are payable to *bearer* as is general in Italy; only a few are personal and these are usually granted only to certain poorer classes. It lends on personal security, or discounts bills endorsed by a good signature. Prolongations are allowed, but only if a certain part of the original is repaid. The bank's best guarantee is in the limitation of its clientéle, who at the same time are its administrators. The State grants it no manner of privilege, but taxes it very heavily.

It has a small village branch, and market days are the periods of receipt and disburse ment; the peasants, girls, representatives of petty associations, all bring or draw money; the deposits are from 1 franc, the loans from £1-4-0 upwards. The bank and its branch are largely helping "la petite culture."

Popular Bank of Milan.—This was founded in 1865 by Luzzatti and a few others with a capital of £28 raised in 1866 to £1,180. In 1883 it had 157,832 shares for £315,000, with a reserve of £132,000, deposits in 4,436 accounts for £680,000, and savings deposits for £1,360,000 in 23,867 accounts, of which 9,748 were "Petty savings accounts" receiving interest of ½ per cent. higher than ordinary savings. In 1888 operations had considerably increased, and money was advanced for above £6,250,000.

A most important function is in its relations with the various popular banks throughout the country; in 1882, it discounted 39,205 of their bills for £2,050,000, or a little over £50 each; it corresponded in this way with 208 such banks, and dealt with them by discount and accounts current to the amount of £8,640,000. Profits in 1882 were nearly £50,000, the whole of which returned to its members. Though its work has progressively increased, it has remained faithful to co-operative principles, and its administration is, up to date (1893), entirely gratuitous, although it employs as many as 100 paid clerks, cashiers, &c., and does so large a business; the directors are about 130 in number, are elected with great care, and give their inestimable services absolutely free, though the work of considering and granting the immense number of loans, of supervising and auditing the accounts which, with the continual receipts and disbursements, show operations of above 70 millions sterling in the year, of organizing relations with several hundred other popular banks, and of supervising the numerous branches and affiliated benefit and other societies, must be enormous. The importance of this great lesson, taught by Signor Luzzatti, and thoroughly learnt by the hundreds of popular banks, is inestimable; the unpaid labour and zeal of these thousands of directors cannot be valued in money.

Popular Bank of Lodi.—This is largely agricultural, and is the offspring of a local benefit society, which, up to 1862, used—among other benefits—to lend small sums to its members. A perusal of Signor Luzzatti's book on 'Popular Credit' led to the foundation of a popular bank in 1864 in the usual small way. In 1883 it had a share capital of £56,000, a reserve of £27,000, and 15 branches, six of which were banks proper, and the others only savings banks. Its Savings departments had 9,280 accounts for £312,000. Its first and chief branch was already a considerable bank with 1,118 members, of whom three-fourths were agriculturists; bills were rare, but cash credits common. Credit was chiefly used for the purpose of cattle breeding and payment of the taxes while awaiting favourable markets. These cash-credits—*see* 'Scotch Banks'—were granted in 1882 for about £98,000 by the bank of Lodi and its branches. Like all the established banks, it grants "loans on honour"; these are issued by a special committee to poor artisans and others who wish to undertake some enterprise, buy a set of tools, &c.; they are granted only for productive purposes, and for £2 only, rising to £4 if the borrower is a member of a benefit society: interest is 4 per cent. and the term six months. If the application is not for a productive purpose, it is absolutely refused. These loans are only granted from a small special fund derived from profits.

The Bank of San Dona sur Piave is situated in a village of 8,000 people, of whom not more than 1,000 reside in the chief hamlet. It forms one of the Trevisa group, and in 1882 had 515 members with a capital of £1,440, a reserve of £370, and deposits of £6,800. It had also borrowed on agricultural debentures £1,680. On December 31, 1882, it had bills for nearly £10,000 in its portfolio; its profits were £149 after deducting £68 as taxations. It lent at from 4½ to 9 per cent.; this was in a district where the regular terms of money-lenders for the same class of people were from 15 to 100 per cent. This little bank was not behind-hand in promoting useful institutions, such as a co-operative bakery, which supplied bread to its members at 40 per cent. below baker's prices in the same village; the goodness of the co-operative bread is attested by the fact that the "pellagra," the origin and spread of which are traced to maize of bad quality, diminished in the village after the opening of this bakery.

This little bank was one of an associated group of 10, the aggregate paid-up capital of which was £24,720 in 23,268 shares held by 8,279 persons; the shares vary from 20 to 50 francs; they held a reserve of £5,760; their deposits were £96,000, including savings deposit of £8,000; they had issued debentures under their joint guarantee for £11,600 out of a series of £20,000, which were to provide funds solely for agricultural improvements and development; each bond was for one year—a rather short term—and the respective banks are bound, every four months, to examine by their "prudhommes "agricoles" the work undertaken by their clients with the funds borrowed.

Padua.—The bank here had, in 1883, 3.949 members; it held £140,000 in deposits and savings, three months' bills for £80,000, and for longer terms for £48,000. Its loans in 1882 were 8,995, of which 2,014 were below £4 and 2,269 from £4 to £20; the expenses were £2,068, and its taxes £920. It had a fund of £1,440 for "loans on honour." It was intimately connected as usual with various other benefit societies. In 1890 M. Rostand visited this bank. It then had 4,310 members with 22,121 shares, an own capital of £44,000, and a reserve of £19,700. Its business had considerably increased since 1888; its dividends were lower owing to more favourable rates to borrowers; its expenses were moderate, viz., about £5,000, of which £1,440 were taxes; its net profits £4,450. The bank had adhered scrupulously to the principles of co-operation and popular credit, three-fourths of the loans being small. Being, however, in a town of 70,000 people, only about one-eighth of its members were agricultural these had received about $\frac{1}{17}$th of the loans. The rate of interest and of discount was, as a rule, either equal to or below that of the National Bank. The "loans on honour" are only granted up to £4, repayable by monthly instalments of 1 or 2 francs; non-members can obtain them, but they must belong to one of the several affiliated benefit societies, and bear a good character for industry and sobriety; interest is 2 per cent. In ten years 3,410 of these petty unsecured loans have been granted for above £6,000; the losses have been 2 per cent.

Asolo.—The Popular Bank of Asolo was visited by M. de Laveleye in 1884 under the guidance of Signor Luzzatti, who, in taking him, promised that he would there see how the Italian popular banks "solve the quadrature of the circle of political economy—"agricultural credit." It was founded by three or four devoted men who gave their services gratuitously for several years, gained the confidence of the cultivators and other small folk, "taught them the machinery of credit; received their savings and made advances "to them, even upon produce; in fact they solved the question of agricultural credit "which is everywhere discussed without coming to any conclusion." The administration was gratuitous, but the staff was paid. Asolo had then a population of only 5,000 people, but the bank had no less than 1,595 members—evidently from the surrounding neighbourhood—of whom 1,066 men and 52 women were "small proprietors, peasants, cultivators of various tenure." Of 6,694 bills discounted in 1881, 5,825 were on account of small farmers and shopkeepers. It gave interest on deposits at 4 to 4½ per cent. according to term, and granted loans at 6 per cent. upon securities, produce, &c. Under Luzzatti's inspiration, it successfully issued "agricultural debentures" of £20 each at 4 to 4½ per cent.; these are further guaranteed by the Trevisa group as mentioned above.

Asolo is only one of a group of agricultural banks; Lonigo, in the Venetian group, is a similar one, and is described by M. Rostand. The commune has barely 10,000 people, of whom not more than 5,000 live in one centre. Till 1877 it had been only an agency of another bank, but in that year developed into independence. In 1890 it had 3,255 members with 12,380 shares, a capital of £14,864, a reserve of £6,500, and a special reserve of £3,400. It held ordinary deposits for £14,660, savings deposits for £60,908 and £48,548 on fixed term deposit receipts. Its operations in savings have, as elsewhere, ousted the Government Postal Savings Banks. But its interesting feature is its agricultural work; in 1889 its loans and discounts were £305,248, out of this, agriculture received in 11,028 loans, £218,600 distributed as follows:—to petty farmers and proprietors £141,988; to richer agriculturists £73,156; to ordinary peasants and agricultural labourers £3,456. Special agricultural loans up to £20 are granted at 3.75 per cent. up to one year, solely for buying implements, seed, manures and stock; these are only granted on a special report and are, as yet, little used, though possible since 1884.

M. Rostand then gives interesting details of some borrowers and the use made of the loans, showing that men with from 4 to 7 acres easily got credit at about 6¼ per cent. as against the "crushing rates" demanded hitherto from the same men by the usurers, who were losing their business. The bank is steadily exercising a wide agricultural credit. As usual, it also grants "loans on honour" to members of Benefit Societies, and has business relations with various Friendly or Industrial Associations.

These and many other popular banks, specially agricultural, are of immense service not only in drawing out hoarded savings and putting them into industrial employ, but in bringing the very cultivators themselves into business relations with the directorate, and in educating them in business habits and in rural and political economy.

There are many other banks, notably that of Bologna, which would be worth describing, but the above will suffice.

It seems clear that these banks have solved or are solving for Italy, the question of petty agricultural credit which great institutions have hitherto attempted without success, and the history of this class of credit seems to justify Signor Luzzatti in saying that agricultural banks must begin in a small way to attain success; that the true mode of progress is from the outskirts inwards; and that from the history of Italy, no less than of Germany, he would "deduce the law that any attempt by a Government to form and work a Central Institution of Agricultural Credit, must be a failure."

RURAL LOAN SOCIETIES (CASSE RURALI DI PRESTITI, SYSTEM WOLLEMBORG-RAIFFEISEN).

Hitherto, the Luzzatti adaptation of the Schulze-Delitsch popular banks has been discussed, but a form of Agricultural Loan Society still closer to the peasantry, still more their own foundation and property, remains to be described. In Italy, there is no such rivalry between the two forms of co-operative banks as in Germany; Luzzatti warmly welcomes the newer and humbler rural loan societies, and considers that for the smaller classes of agricultural credit ,he Casse Rurali are best adapted, with the popular banks for agricultural credit in general.

The Casse Rurali are practically copies of the Raiffeisen loan societies adapted to Italian surroundings; they had the great advantage of the perfected Raiffeisen system in full view, so that many initiatory difficulties were avoided. The lesson they teach is that private initiative will overcome the most insuperable difficulties, if only knowledge, tact, courage and perseverance are brought into action on given areas. No amount of talk or papers schemes or learned treatises or even G.Os. would convince the peasantry—should they even by chance hear of them—that it is possible to obtain credit and defeat the usurer by simply uniting in societies of unlimited liability. What however was otherwise impossible, was actually accomplished by the devotion and will of one man, Dr. Leon Wollemborg, then in his earliest manhood.

History.—Dr. Wollemborg's family resided at Loreggia, a village of 2,795 inhabitants, nearly all agriculturists, scattered over its whole area. A man of observation and culture, he was struck by the miserable condition of the peasants, their poverty, the "frightful and shameless" usury to which they were subject, the absenteeism of the landlords. He himself states regarding usury in his village, that it was common for borrowers to pay 1 franc per month for every 20, or 60 per cent. per annum, to which is regularly added a dinner (collation) every Sunday, gratuitous labour and other "corvées" The peasants were at the mercy of the money-lenders, and had moreover to buy bad goods at ruinously high credit prices. But, as M. Rostand says, Dr. Wollemborg added to observation the result of much thought on social matters, and, fortunately, a

knowledge of what had been done abroad, notably by Raiffeisen in Germany; and in 1883, when only 24 years of age, he attempted a similar foundation in Loreggia. It was a task of the utmost difficulty; in his own words, "the novelty of the proposals, the "nature of the locality, the class of persons to be persuaded, distrust, jealousy, factions "of all sorts, were obstacles which had to be surmounted," and to these he adds the isolation of the peasants, their misery and apathy, their ignorance and their mistrust of the landlords, for the peasants were mostly tenants and not proprietors. No situation less promising can well be imagined, but Dr. Wollemborg attacked the situation and conquered it, absolutely without external aid. After many discussions and much persuasion, he got 32 persons to join, among whom were 12 very small peasant proprietors. The example of course, was little imitated at first; the nascent society had to prove its position, and only then would it be imitated. This has now been done; the societies are rapidly spreading, and in November 1890, there were 44 in existence, all duly federated; the number in 1892 had risen to 66.

Organization and Methods.—These are so similar to those of the German societies that they need no recapitulation. There are only minor differences: (1) the German law requires a share capital, however small the shares may be whereas the Italian societies have none; (2) the German societies are not above receiving external aid, even in the form of Government subventions however occasional, whereas no such aid is given in Italy; (3) the Italian Casse, while agreeing with the German societies in granting long term loans, even for several years, do so by three months' bills, periodically renewed; it is claimed for this method that it enables the Cassa to recover its money if it is hard pressed for funds; that it enforces punctual payment of the interest, since renewal is not granted if the interest is not paid; and that the Cassa is able thereby to ensure the use of its loans in the manner intended, the penalty of not doing so being a refusal to renew. The German plan is simply a long-term loan repayable by instalments. This instalment system is not generally practised by the Italian societies, but it is obviously easy to graft it on the three months' system by demanding a small part-payment at each renewal on penalty of refusal to renew; (4) a fourth difference is that in the Raiffeisen societies no loan is granted without an additional guarantee, such as a surety, a mortgage or a pledge, whereas in Italy loans within two years may be granted up to a certain amount on the simple security of the borrower; (5) it may be added that, while in both countries the aid of the village priest is sought, as probably the most enlightened and philanthropic man of the commune, the Italian Casse have no religious element in their aims as in the case in the Raiffeisen societies; they are simply secular business associations.

The common traits are unlimited liability, strict territorial limitation, viz., the commune at most, the absence of dividends, the rigidly maintained reserves, which, in the case of dissolution of the Cassa, go to the local charity-society or to the commune (the principal in trust for any subsequent Cassa, the interest for utilization in charity), the extreme simplicity of organization and management, the gratuitous administration, the minimization of expense, the devotion of all members, and the affection and pride therein displayed by the poor whom the societies have rescued from misery. The strict controlling of the use of the borrowed money is also common to both countries; no loan is granted save for productive purposes including, of course, the paying off of usurious debts, and these purposes must be strictly carried out.

It should be added that, whereas in Germany there is some complaint of irregularity by borrowers in repayments, no such fault is found in the Italian reports; prepayments are frequent, delays rare, and losses practically *nil*, the relations of deceased members, and even emigrants who have left the country, taking pride in recouping the society in all its dues.

Funds for loans are procured on the security of all the members jointly, from well-to-do private persons of the locality, from savings or popular banks, or from the ordinary banks. The Casse also open savings banks of their own, and thus increase their funds. Some difficulty is usually felt at first; as the Cassa grows, money comes in easily.

The model statutes of these Casse will be found in another appendix and give full details of the organization and management.

Dr. Wollemborg's Report to the Paris Exhibition of 1889, entitled 'Les Caisses Rurales Italiennes' must be read in full for a view of these societies taken from the life. A few extracts from this and from M. Rostand's work ('Une visite en Italie') will however be given to bring out certain salient points and results. Dr. Wollemborg's account of the Loreggia Cassa is here roughly translated, as it gives a complete and living picture of the operations of a society in detail.

This is a village of Padua about 12 miles from town, with 2,795 inhabitants almost entirely agricultural; most of them are tenants, some with from 7½ to 75 acres, some mere cottiers holding below 7½ acres; there is a sprinkling of small proprietors holding generally below 12½ acres. The soil is, perhaps, the least fertile in the whole province, while the rents are very high. Most of the great proprietors are wholly absentees. Usury is a long-standing plague and is practised either by professional money-lenders or by thrifty persons who lend their savings, which latter form is less vicious and more profitable to the cultivator.

As the result of several lectures to the peasants, 32 members united on 20th June 1883 in the first Italian Cassa Rurale; of these, 12 were very small peasant proprietors, 17 small tenant farmers, the local apothecary, the village secretary (karnam) and myself.

The object of the society is the improvement of the moral and material condition of the members by lending them such money as they may need for *that purpose*, funds being obtained by loan on the collective guarantee of the society. Members accept individual responsibility in equal shares for the society's liabilities. Only inhabitants of the

village may become members. Solidarity and limitation of area are the two fundamental principles of the society, mutual confidence resulting from local knowledge and the communal feeling. The society becomes one of the village institutions and is spoken of with the same affections as the village church. The result is an absolutely co-operative society strictly limited in area where everything is perfectly open perfectly simple, and perfectly within the capacity of the members to manage prudently and regularly. It would be impossible to increase the area of operation since the inhabitants of one village would refuse unlimited liability for engagements made with the inhabitants of other villages, and without solidarity, it would be difficult to attract a sufficient capital; by substituting the association for the individual a guarantee is offered to the capitalist, who thus obtains a single safe investment in place of a number of small and risky loans. For it is not that the members are paupers; on the contrary most, if not all, have a certain amount of property; what they want is that credit which will supply them with ready money, and by association they can obtain this credit from lenders who would not care to open their purses to the isolated individual.

As a matter of fact this solidarity presents no real dangers, while it is the most efficacious safeguard against loss through careless lending or reckless spending; as one of the members remarked " we are 100 in number and each one looks after the other; it is imposible to humbug."

Solidarity moreover is not merely financially powerful but morally; formerly men stood by carelessly or even complacently when a neighbour fell into misfortune; now the community of interests excites a friendly solicitude which takes the shape of advice and help to avert loss to or promote the profit of a comrade. In other words, selfish isolation gives place to mutual help.

Any one may become a member provided that his character is generally known and approved of. Membership is lost on leaving the village or by disobedience to the rules. In case of death it is usual to accept the next head of the family. A member is especially liable to expulsion if he does not employ the loan for the understood purpose, or if it is necessary to take legal proceedings for arrears. It is found that the fear of such expulsion, which would bring on the member loss and shame and general discredit, has a strong preventive influence. Withdrawal is perfectly free, but for two years after withdrawal a member continues responsible for the liabilities of the society.

In eighteen months 96 new members joined, 16 had retired, of whom 4 had died, 6 had left the village, 5 had withdrawn, and only 1 had been expelled. Each member represents a family seldom less than 4, and often (as in India) including 20, 30 or even 40 persons.

The administration is absolutely gratuitous. Its organs are the general meeting, the directorate, the committee of supervision and the cashier-accountant. The members of the directorate are chosen by the general meeting, which also fixes the maximum amount to be received on deposit or loan, the maximum credit grantable to any one member (£24), the fine leviable (5*d.*) from each member, who fails without proper excuse to attend general meetings, it being judged that attendance at a meeting is not merely a right but a duty; recalcitrant members may be fined more heavily. The meeting assembles at least twice a year and as often as may be necessary.

The committee of supervision is the standing representative of the general meeting; it watches the due observance of the rules and of the resolutions of the general meeting; it has the right to verify at any moment the cash and to audit the accounts, and may suspend the cashier or any member of the directorate, in which case the general meeting must at once be summoned. The committee decides all applications made to the society by the directors, where their personal interests are concerned.

The cashier is the only person whose functions are not necessarily gratuitous; it is permissible to pay him, but his salary in general does not exceed £2 per annum.* In many cases no salary whatever is paid, some educated and well-to-do member undertaking the duty. Operations being very simple and the office being open only on fixed days, the cashier's work is light; most of the work is also done by the directors (*cf.* ' Building societies, United States of America '). Any cash balance is at once paid over to the nearest Postal Savings Bank.

Loans.—Loan operations are very carefully considered and regulated, nor is any loan granted unless judged beneficial to the borrower; its term is calculated according to its intended use, which must be precisely stated in the application. Since the status of the borrower, the area and condition of his farm, and the improvements which he can carry out are perfectly well known, the society will grant no loans which are not justified by the circumstances, even if the candidate offers abundant security. For the object of the society is not a mass of business, since it has no expenses to cover and no dividend to distribute, but beneficial credit, so that it declines to grant loans which, far from aiding the moral and material advancement of an imprudent or ignorant member, would certainly end in ruining him.

Loans are of short term—up to two years, or of long term—up to five years. These latter are not ordinarily given at the inception of a society; when granted they are repaid by annual instalments. A right of demanding payment at any time on three months' notice irrespective of the term of the loan, is reserved to the society. This right can only be used if the society is pressed by its creditors. Generally loans are taken for not longer than one year. The committee of supervision or a special committee demands from the borrower all necesasry proof that he has used the loan as intended. Long term

* Allowing for the difference in the value of money this would represent Rs. 12 per annum or Re. 1 per month; the fact is commended to the attention of Indian banking reformers.

loans are covered by mortgage, by sureties, or occasionally by pledge. Short-term loans may be granted on the sole guarantee of the borrower if of approved character, but the total of such loans must not exceed the maximum fixed by the general meeting.

Funds.—These proceed in general from two sources, (1) from a savings branch, (2) from outside loans. At the outset there is admittedly a difficulty in procuring capital, but a beginning may be made with very small funds, and once started, there is never any further difficulty. At Loreggia the society started with a loan of £80 at moderate interest from a neighbouring proprietor. I have stimulated others in good circumstances to follow this example, since the members of the society are their tenants. Certain popular banks and savings banks also grant loans to the rural cassa in their neighbourhood, and as the society grows it succeeds in drawing out the secret hoards of the hitherto suspicious peasants. Interest on deposits is at 3 to 4½ per cent. and on loans from Savings banks, Popular banks, &c., at 4 to 5½ per cent. The interest demanded by the society from its borrowers is usually 6 per cent.; the rate is fixed by the general meeting, that is, by those who may themselves become borrowers. The difference between interest paid and interest received forms the profits of the society: these are never distributed as dividends but, after payment of expenses are handed over to the reserve, which, in Loreggia, is now 10 per cent. of the aggregate of deposits and other liabilities; it is further supplied either by a general annual contribution or by a commission on each loan. This reserve is of the highest importance as a guarantee for credit and as a safeguard against loss. As it grows it will serve to sustain various works of public utility, and with this view the general meeting has, notwithstanding the progress of the reserve, unanimously rejected a proposal which I had made, to diminish the rate of interest payable by the society's borrowers, although the meeting was comprised of 112 persons, of whom only 2 were not borrowers.

The following description of the working of the cassa is from the pen of a well-known French economist (Father Ludovic de Besse):—"I have just been present at the "office of the Loreggia Cassa, which is only open once a fortnight for business. Signor "Wollemborg presided, assisted by the chaplain and several members of the committee "of supervision and directors. The office is held in the village hall (chávadi); the "work to be done was the receipt of payments and the grant of loans; the business to be "done had been examined by the directorate some days before, and the loan applications "had been either accepted or modified, *e.g.*, an application for £8 for a term of one and-"a-half years to buy a cow, had been endorsed as follows: 'accepted for £7-4.' The "member is informed of the decision, and on the office day, appears and "signs a bill not for eighteen months but for three months, since loans of "whatever term are granted only on three-month bills, with the view of retaining con-"trol over the borrowers, of requiring them to pay the interest every three months, and "of stimulating them to pay off the loan as early as possible. If the loan is not utilized "as intended renewal of the bill is simply refused. One of the chief features of the "business is the alacrity with which the peasants pay their debts; it is visible in their "very faces, especially if a man has succeeded in repaying in advance. A borrower may "repay at any moment. On this particular morning 10 members were due to come, and "duly came, with reference to prior loans; of these, 4 paid up their debts in full, 2 paid the "interest and renewed their bills, 1 paid an instalment, another who had paid in "advance—treated in that case as a deposit till the maturity of the bill—came to cancel "his bill and receive the interest on his deposit; 2 others simply renewed their bills. "Two other members from whom nothing was yet due came unexpectedly to pay up "joyfully in advance the whole of their debt."

"The grant of loans was next taken up; the president announced that the National "bank had renewed and increased its credit of £200. Six members came for loans of "from £6 to £8; they signed their bills and received their money. It is noteworthy that "as many peasants cannot write they are now getting themselves taught for the purpose "of the society. Deposits were next received; these are accepted from non-members; "this morning only 4 children made deposits of small sums."

"Every transaction is vouched for by a written memorandum in counterfoil, the "book being in the custody of the president; the coupon is handed to the cashier who "carries out the transaction and files the paper as his voucher, *e.g.*, for a miscellaneous "expenditure of 3 francs, the president wrote a memorandum authorizing the cashier to "pay himself that sum. At the end of the morning there remained in hand £5-10, "which the president remitted with a coupon from the memorandum book to a neighbour-"ing bank. This finished the business, everything having been done quietly and per-"fectly in an hour and-a-quarter."

In the sixth year of work (1888) the Cassa granted 78 loans for £438; its outstanding loans on the 31st December 1888 were £599, on which interest was due for £15; it had borrowed £120, had deposits of £320, savings deposits of £43, and various deposits for £80, with a reserve of £59.

Experience has proved that the members pay punctually, and where time had been given, owing to sudden misfortune, *e.g.*, death of the cattle purchased with the loan, there had been no eventual failure (this is one great advantage of local societies that they know when they can give time and yet be sure of their money).

The loans were for the following purposes:—94.2 per cent. for buying cattle and live stock; 3.5 per cent. for buying forage, and the remainder for buying implements and silkworms eggs.

As for the moral and material effect of the Cassa, it is, on other testimony, very remarkable.

The priest writes as follows in a public letter:—"Labour is now more honest and "the wineshop less frequented; only steady men are admitted as members; and the result

" has been that drunkards have taken the pledge and *kept it*. Unlettered men of 50 years " of age and upwards have learnt to write so as to be able to sign, &c., the necessary " papers. Men rejected as members as being in receipt of public relief, have got their " names struck off the pauper list and taken to successful work with the aid of a small " loan from the Cassa. Many a man who could not even maintain himself has now " bought a cow, paying off the loan by selling the milk and cheese so that her value is " clear profit. Empty stalls are now tenanted; there are more beasts, more manure, " better harvests. I have heard the members rejoicing at their escape from the cruel " usury which was devouring them, and blessing the society and its founder."

The apothecary of the place writes that " the pastures have been tripled in area; the " stalls have been purified and the cattle increased; many families are now able to add " milk to their diet to the great improvement of their health and strength. The peasant " wholly isolated, and the prey of the most shameless usury, had formerly the choice " between utter misery and vice; *now* he is growing in independence and self-reliance; " he is proud of his share in the management of the Cassa, and is more sober, industrious, " and punctual in his engagements. 'I think myself in Paradise, said one, when I " remember what I used to have to pay to the usurers,' and it is common to hear the " assertion that since joining the Cassa they are able to afford a better porridge (polenta). " A rural association has also been founded by the Cassa with the view of procuring " for its members a place of meeting, where with the aid of lectures, discussions, con- " ferences, &c., the best methods of developing agricultural progress under local " conditions might be studied. This particular object has not been much developed, " but advantage has been taken of this association to club together for the wholesale " purchase of guaranteed manure, seed, &c."

This is remarkable testimony to the value of these petty credit societies; and this is repeated in varying forms, for many of the 35 Cassa reported on by Dr. Wollemborg; all are successful in many the evidence is extremely stirring.

In Trebaseleghe the Cassa opened with 19 members, of whom 10 were " petty pro- prietors " (ordinary ryots) and the other nine " petty tenants "; the village school- master, a village officer, and the priest undertook the directorate. Difficulties were nu- merous; the local Shylocks fought it *à outrance*, the big landholders joined the usurers for fear the " small folk " should get too independent; funds could hardly be got; yet these petty farmers, with their local and enthusiastic directors, triumphed completely. Interest on money is now 6 per cent. instead of 100; stock is increasing, the lands are under improvement, rents are duly paid, and food is better and more plentiful. The loans run from 8*s*. 4*d*. to £20, for one or two years, on the usual three months' principle. The repayments are invariably punctual, and usually by instalments in advance. The same testimony is given as in Loreggia to the beneficial influence of the Cassa on idle- ness or misconduct.

In Buttrio there is similar testimony as to punctuality and as to payments in advance; not a pie has been lost. The Cassia is more and more resorted to for all legitimate needs, and the situation of the peasants is sensibly improving.

There is similar success in S. Angelo de Piave where the workers now get the full fruits of their bours which used formerly to go to others. Again is their punctuality commended.

In Campo San Martino, a youthful landholder took the initiative in 1885, and the Cassa had up to 1889, furnished 239 loans, all for agricultural improvements or for paying off usurious debts, a form of relief of course recognized as legitimate by all the Casse. This Cassa is supplied with funds by Savings Bank of Padua, which lent it £640 apparently at 4 per cent. repayable in 16 yearly instalments. The operations of the Cassa " have driven out from the village the former frightful usury which used to touch " 200 per cent."

In Vigonovo where the peasants were suffering not merely from the universal trouble of grinding taxation, but from fearful losses caused by the vine-disease, and by the great fall in the prices of all agricultural produce, and where usury " always passed 60 per cent." and was " daily becoming more and more shameless," the economic and moral effects are not less remarkable. The Cassa actually " moralizes " its neighbourhood persons of misconduct reforming themselves so as to become members; " the great defect " of the peasantry, viz., unpunctuality, has disappeared so far as regards their dealings " with the Cassia. M. Rostand says, from his personal enquiries, that drunkards are " being reformed by the hope of becoming members (and probably by the new hope of " attaining some prosperity); petty thefts are becoming less numerous; the ideas of " mutual help are spreading. Not a single pie has been lost; even emigrants pay up " before leaving; any defaulter would not only be struck off the member's roll, but " would be dishonored and excommunicated in civil life."

In Sossario, " the usurers have disappeared," the country side has wakened to new life; independence and self-help are spreading, and of 18 absolutely unlettered (analpha- bétiés) members of a local Benefit Society, no less than 15 have learned to read and write for the purposes of being admitted to the Cassa.

In Servo, a village of 670 people, money has largely been borrowed to pay off old usurious debts to buy stock, manure and implements, to establish small industries, such as a petty soap factory; it relieved peasants from the clutches of lenders who " under " colour of interest grasped the entire harvest from their fields," and freed men from the thraldom of the shopkeepers by enabling them to pay cash.

In Cerguai, the President of the Cassa, a simple peasant proprietor, writes that they have " broken the chains in which the usurers had bound them." This Cassa is controlled entirely by peasants who are almost the sole inhabitants of the village. One

member had obtained a loan of only £7 to pay off a mortgage of that sum which, " with- " out the aid of the Cassa, would have devoured me to my ver- hut."

A Chamber of Commerce, writing in 1887 of various Casse, bears witness to their remarkable effect in sobering and improving the peasantry, specially noting that " they " are not charitable institutions, giving help to the incompetent and even to the idle; " on the contrary they lend only to honest, laborious, and capable men who know how to " use the capital confided to them."

In Abario usury passed everything on record; a report states that the richer peasants had formed a ring which sold maize to their poor brethren at the rate of a sack worth 10/for 19/or 20/ payable in three months. This—say 400 per cent.—was bad, but on petty money loans the village head (Maire) states that interest " often reached the fabulous amount of 1,200 per cent "; even peasants not of the poorest class would have to pay on a four months' loan of £4, at least 45 per cent per annum taken in advance, with a commission for brokerage, and a dinner to the lender and broker. The Cassa has put an absolute end to this sheer tyranny of greed; it lends to these very peasants at the rate of six per cent and bewilders them by the smallness of its demands. The rules of the system are strictly observed; no loan is granted but for a productive purpose; punctuality is enforced by penalties, strict control is maintained over the members and their use of the borrowed money; here also men learn to read and write so as to join the society (Rostand); members are required to be present at meetings under penalty of a fine. This latter rule is common to all the Casse.

The above extracts, which might be multiplied and amplified to a great extent, show how successful these Casse are; they show also that the common talk, borrowed from treatises on abstract political economy, that usury is but the result of uncertainty and is merely " insurance," is idle talk. The petty villages where usury reigned supreme, and made utter slaves of the peasants, have by the mere organization of *mutual* credit which seeks only the good of the borrowers, at once everywhere driven usury and the usurers out of the field. Be it remembered that the security of individual loans is in no way increased by organization; it is not that the society gives any guarantee and thus enables a borrower to go to a lender upon better terms; it is simply that a number of men get together and lend to one another on *just the same* security that the individual borrowers were before able to give to private usurers; the same men, in the same circumstances and conditions as before, find it possible to lend themselves money at 6 per cent and lend it with safety and profit, whereas 60 per cent had up to that very day been considered moderate by the money-lender. Usury is, in general, as regards peasants, a mere exploitation of misery; it is not necessarily the result of insecurity and poverty; it is too often and too greatly the monstrous offspring of greed and monopoly. A peasant proprietor is not generally poor as compared with artisans, for he has the health and capacity of the latter *plus* a landed estate and stock; he ought therefore be able to borrow on good terms, and the Rural Loan societies of Germany and Italy prove that he can do so, if he is merely taught the methods of organization, methods which he is not slow to learn or appreciate.

Statistics might be given for each society, but the facts are sufficient. The loans are, of course, small, and the aggregate amount comparatively insignificant; that is not the point; it is the fact of success, the fact that these small local societies can successfully work credit organizations so as to oust usury and develop their own industry, status and character, which is important; this point is proved; the rest is a matter of time and development.

A few general statistics may, however, be given for 27 societies up to 1887. The Casse have been started in villages only, with a population of from 317 to 5,000; only four are above 3,000. In all cases the directors are chosen from the men of most influence, whether officials, priests, proprietors or others. The chiefs of the committee of supervision are mostly " peasant proprietors." The number of members was 2,235, an average of 83 per Cassa. Out of these, 493 were petty proprietors holding less than 5 acres, and 580 holding 5 to 12½; 186 were tenants of less than 5 acres and 172 were tenants of from 5 to 12½ acres. Loans granted in 1885-87 were 4,380, of which 3,148 were below £8 and 952 were below £2. During 1887, cash receipts of all sorts were £26,116 and disbursements £25,540.

In all the Casse, the bulk of the loans were for the purchase of stock, implements, manures, seed, forage, &c., for the repair of buildings, or for the redemption of usurious debts; *none* was given for mere purposes of maintenance; the loans are industrial, productive grants only.

Grouping.—Dr Wollemborg however is not content to start these Casse and leave them to themselves; isolated they might fall; federated they stand. All the Casse founded up to 1890 are in Venetia and are linked together in a group (1) for the collection of information and statistics; (2) for the aid of nascent institutions in organizing their statutes and administration, and in struggling against opposition; (3) for assistance in procuring capital *ab extra;* (4) for supervising the methods of the societies and auditing their management; and (5) for the creation of a common rallying centre for the interchange of experience, for the propagation of the system, and for obtaining legislative reform. The influence of the group committee is simply moral, not authoritative. Padua is the seat of the Central Committee, which not only publishes the monthly balance sheets and reports of the various Casse, but issues a monthly periodical called 'La Co-operazione Rurale.'

The Popular banks of Signor Luzzatti, whether in their direct operations in agricultural credit in the less urban localities, or in their not unimportant function of feeding

the Casse Rurali of Dr. Wollemborg, appear suited to the larger and more general class of cases; for the *petty* proprietors and cultivators the Casse Rurali, operating in the very home of the agriculturists, under their own eye and by their own administration, educating the peasant in thrift, prudence, sobriety and punctuality, and developing other local, even though petty, economic or other associations round them, seem to be the rural credit institutions of the future in the centres of "*la petite culture*," whether that be of proprietors or of mere tenants and metayers.

FRANCE.—In the matter of Popular banks or Loan Societies, France is singularly behind-hand; a people of pre-eminent organizing capacity, with a complete perception of the need for guarded agricultural credit—a subject studied and discussed amongst them for fifty years—with the example of other nations, whether of the Teutonic or Latin race before them; with a soil sub-divided amongst millions of small proprietors wholly unaided by systematized credit, and with a land mortgage debt amounting, in registered mortgages alone, to about £660,000,000 sterling, France has yet failed to establish any system of agricultural or even land credit which should reach the masses of the people; Popular banks and Loan Societies, except in towns, hardly exist; apparently not more than a dozen at most can be counted up, and these are urban rather than rural. If, however, France does not imitate, she originates, and the germ of a great co-operative system of agricultural credit, is now visible which promises to spread over France, and may provide useful suggestions for India.

There are in France above 1,100 agricultural associations (Syndicats Agricoles), all developed since 1884 (see below *sub. voce* 'Agricultural associations'), and a few of these have developed a branch for agricultural credit; this method bids fair to solve the question for the mass of the small farmers. The associations consist of the various agriculturists of a given neighbourhood, united for the promotion generally of agricultural progress, but especially for the examination and purchase at wholesale rates, of genuine manures, seeds and other matters. Instead, however, of always purchasing for its members, the association occasionally finds it better to advance cash from its share-capital, and this has led to the development of a special branch *ad hoc*.

The best known and pioneer example of an association with credit annexe, is that of Poligny which is an arrondissement or taluk, having an agricultural association, established with the usual view of supplying its members with agricultural information and materials. The members of the association are admitted by election, the elite of the agriculturists being thus secured; any of the members, and only members, may then join the Credit Union by subscribing a share of £2, of which one-fourth must be paid up. The Credit Union does not form part of the association, but is an annexe with separate status, separate administration, and separate capital and accounts. Most of the agriculturists of the neighbourhood are petty proprietors, as usual, much in need of capital. These petty subscriptions cannot form a working capital, which is obtained as a start by foundation shares of £20 half paid up; these subscribers are the better class of proprietors and landlords, and cannot borrow from the association, but draw merely interest with a fixed maximum. The total subscribed by both classes was up to 1892 only £1,768, of which £1,115 had been paid up; this was increased by £1,434 of deposits; with this small capital loans were granted—solely by the discount of bills—of £1,240 in 1886, £2,400 in 1888, £5,080 in 1890, £6,360 in 1891 and £8,480 in 1892. The interest paid on loans was formerly at the rate of 4 per cent., but is now 3½ per cent per annum. These results were obtained by re-discounting the bills with a branch of the bank of France usually at 3 per cent; the procedure is as follows:—A member presents his demand which must state the object of the loan—the association lends at present solely for the purchase of implements, manure, cattle, &c.—this is presented to and examined by the president of the sub-committee of the Canton (Union), in which the borrower lives. On his report the loan is granted or refused; if the former, the borrower gives a bill for three months, with one surety; this is accepted by the association, which then issues the money; the bill is then re-discounted by the association, the bank of France accepting its signature as the "third signature" required by its statutes, recognizing that not only does the association guarantee the loan, but that each signatory is a person carefully selected primarily by the association, and secondly by its credit annexe. These bills may be renewed several times, but their short term is necessitated by the fact that the bank of France will not discount bills of longer term than three months. No loan is granted for more than £24. The result is a very considerable business with very small funds, and frequently the rescue of individual cultivators from absolute ruin, as when cattle are swept off by disease, &c. The agricultural association believes that in this way, it is solving the much-discussed problem of the crédit agricole; all financial combinations in France up to this itme have failed, and it is believed that there, as elsewhere, agricultural credit to small folks can only be granted by mutual co-operative societies. It does not aparently believe even in the new project of a vast central establishment under the patronage—as formerly—of the Crédit Foncier, but working, as was proposed in Belgium through local intermediaries, which already exist in France in the shape of the 900 and odd agricultural associations, for these have no particular interest in safeguarding the interest of the lending establishment, but will rather incline to favour its members at the expense of the institution; they will, moreover, require remuneration, and this will raise the cost of loans.

The secret of the success of the present association is that it is a local group of associates, that it works for the immediate benefit of its own members, and does so gratuitously; it can appreciate the position of each borrower, and is ready to grant him delays or other assistance, if necessary; no central institution working by hired employés and with funds intended to earn the highest possible dividends with the utmost regularity, can do so.

It should be noted that this credit branch is due to the initiative and liberality of one member, M. Alfred Bouvet, who at first, placed his accountant and cashier at the service of the nascent Society, and thus gave it the advantage of a good system of accounts gratuitously. As profits accrued, the society was able to pay its staff. All its directorate and members of committee, twelve in number, give their services gratuitously; the demands on their time are not grant, and the local prestige and influence fully compensate for any slight loss of time and labour. The society had not at first greatly attracted deposits in spite of a fair interest at starting of 3½ per cent., but is now developing this branch; in 1890 it had only between £200 and £400 in this form; on the 31st December 1892 deposits had reached £1,435, though the interest had been reduced to 3 per cent.; deposits are term deposits usually for three months certain; but, as will have been seen, its real dependence for funds is on the bank of France which re-discounts its bills at 3 per cent. or less; deposits, except as promoting thrift, are therefore of less importance financially; but to fulfil the true role of an association, and to instil true ideas as to capital and credit, it is suggested that the savings bank department is worth still further and special development.

The reporter, M. Milcent, considers that Government should place at the disposal of the Minister of Agriculture a lump sum annually for distribution as grants-in-aid to such agricultural associations as found branches of mutual credit; in this, it would only follow its own example in the matter of provident and friendly societies. £40 or £60 granted to defray first expenses would be sufficient, and the total *per annum* would not be considerable.

Finally, he considers that the solution of the whole problem lies in grouping agriculturists in associations, in organizing them into groups, in inducing men of intelligence to devote their time and brains to this important work, and in providing the first funds so as to start nascent societies favourably.

It seems probable that it is the success of this little society which has inspired M. Méline with the idea which he developed into a bill for the organization of agricultural and popular credit, a bill which has now passed into law; this law proposes to utilize the agricultural associations, or rather their credit annexes, in dispensing rural credit, funds being provided by a central bank which shall re-discount agricultural paper, which has been discounted by the Crédit Unions. The fundamental advantage possessed by this proposal over the former attempts of the Société du crédit agricole, and by the abortive Belgian proposal, is that the proposed intermediaries between the central institution and the peasants already exist in the 1,100 odd agricultural associations or in the credit-annexes which either already exist or may readily do so in the early future; if the project succeeds it will be due to the prior existence of the agricultural associations and of the pioneer Crédit Union of Poligny.

The statutes of this ' Crédit Mutuel ' will be found in an appendix; as also the model statutes for agricultural associations under the law of 1884, which is also translated.

The Syndicat Agricole of Compiégne has not itself established any Credit Society, but makes use of a responsible manager as intermediary who—as surety—guarantees the paper of the members when presented for discount to a banker, and receives a commission for his risk.

It seems possible that associations, whether in Europe or India, might, as soon as corporate life became established, adopt or adapt this principle for a special credit branch, *e.g.*, a very small capital, derived from the subscriptions of the members of the branch, and securely invested in Government paper, would serve to guarantee an indefinite number of discounts of short term paper with a bank, for only a portion would be maturing at the same time, while a very small portion indeed would ever be lost, seeing (1) that the borrowers would be the best of the ryots as evidenced by their membership of the association; (2) that they would also be as members of the Credit Union a further selection from the association members, who had by their subscriptions and by their selection evinced *primâ facie* their solvency; (3) that they would, in case of default, be subject to exclusion from the society and its benefits. Or it would be possible, as in the above case, for the association simply to use as intermediary a person of well-known solvency who would give his guarantee for a consideration.

Further particulars are now available up to 1892 from the work of M. Le Comte de Rocquigny (1893) on the Syndicats Agricoles, who mentions 10 other syndicates, which, chiefly in 1891 and 1892, have started credit branches of one kind or other. That of Genlis founded in 1891, works without capital through a member of the syndicate who has deposited securities for £400 at a branch of the bank of France as a guarantee; the bank then, on the security of this deposit, discounts bills of the association members; a borrower signs and gives a bill to the President of the association who countersigns it; these two signatures coupled with the security abovementioned are accepted by the bank. The guarantor or depositor of the security apparently gets a commission for his services, while he is saved all trouble and risk in drawing the interest on his securities which is done by the bank. Loans can only be obtained by members of the association, and for a productive agricultural purpose, and the borrower must name a surety: the maximum loan is for £20, and the term three months renewable twice or thrice. Interest is — per cent. above the discount rate of the bank, *plus* ½ per cent. for charges, and ¼ per cent. on each renewal. Loans are also granted in kind (seed, manure, &c.); as the French law grants a special privilege to lenders of this sort, no security is necessary.

The association of Deux-Sévres has a reserve capital of £1,600; with this and the personal guarantee of the president, the association has an unlimited cash credit with a

bank: this enables it to buy wholesale, manure, &c., which is retailed to the members either for cash or on credit at the rate of 6 per cent. per annum. in six months from January to June 1892, the association had opened credit accounts, with 450 members to the value of £2,600, and had supplied 2,400 tons of goods, chiefly among small cultivators.

Another society (Lunéville) has pledged its property worth £1,000, and with this and a reserve of £820, both given in pledge to a bank, it obtains the discount of bills, which in 1892, aggregated £20,000.

At Saint-Florent-sur-Cher the association founded in September 1891 a popular bank similar to those of Germany and Italy with a subscribed capital of £360, and paid up of £200; its paper is discounted by the bank of France up to £800. With this facility and with deposits of £1,360 it had, in 1892, granted 86 direct loans for £2,788, and had discounted bills for a still larger amount. The management is purely gratuitous, and the profits will be utilized in cheapening credit which, however, for agricultural loans is only 1 per cent. above that of the bank of France.

By these means individual cultivators wholly unknown to the regular banks, who could not, moreover, trouble themselves to enquire about persons wishing to borrow only £10 or £20, obtain credit at the cheapest rates, through co-operation. Forming themselves into a society, and subscribing a modest capital, they are able, by the guarantee of their capital and of the additional status given to them as members of an association, to obtain the desired credit, and as each member is interested in the safety of the association, each, while ready to help his neighbour, at the same time watches his utilization of the loan, which, in all cases, is only granted for some direct agricultural purpose.

Attempts are also being made to aid the small farmer not merely in obtaining credit, but in getting the best prices for his produce; the associations are endeavouring to grant advances upon crops in hand, so that peasants, instead of dealing as isolated units with brokers, or throwing all their produce at one time on the markets, may be able to hold over their produce by obtaining advances against them from the associations. Owing to the provisions of the law, goods cannot be the subject of pledge (gage) without actual delivery of possession; there is nothing corresponding to the English bill of sale. Hence the efforts of the associations are confined to storing the peasants produce and issuing advances and warrants against them; they also issue to the peasant materials required by him against part of the value, the transaction being called "credit by exchange" (le credit agricole par virement). As the associations demand a minimum profit, the peasant gets the full benefit of selling at leisure, and through the ability of the association to higgle and place produce profitably, he usually gets a far better price than if he dealt personally with a broker or a glutted market. The subject is mentioned not merely to show the various forms which credit may assume, but to show how these local Credit associations may in this presidency assume, the rôle of produce brokers, both for the purchase of raw produce from their members, or its receipt and sale for the benefit of members, or for the supply to members of necessaries at wholesale rates. As regards the grant of advances upon produce, the procedure of the bills of sale Act, or the corresponding procedure of the Italian and Belgian special laws (*see* 'Crèdit Agricole') may be adopted. It is also probable that by providing grain pits or granaries the (future) associations of this presidency might actually receive produce in kind which might be lent out in subsequent seasons for seed, maintenance, etc., and thus adopt the rôle so successfully filled by the Positos of Spain and the Monti Frumentarii of Italy (*q.v.*), they would, in addition, serve as granaries for relief in time of famine, and would serve the excellent purpose of utterly preventing rings to keep up the price of grain in times of scarcity.

BELGIUM.—The following extract from Commercial No. $\frac{20}{1886}$, gives an account of the Belgian popular banks. It should be explained, however, that they do not serve agriculture to a great extent, but chiefly other industries. It will also be observed that a loan can be obtained for other than productive purposes:—

"Co-operation took root in Belgium later than in England, Germany and France, "the first Co-operative Society being the People's bank at Liège, founded in 1864; once "strated, the banking system soon found ready discipiles, and in 10 years' time of the 34 Co-"operative Societies then existing no less than 20 were Popular banks. They are of great "service, not only to the labouring classes, but to the small tradesmen and farmers, who "are helped by them to carry on their business. These banks are founded on the following "general principles:—

"(*a*) The admission of new and the resignation of old members without any "necessity for renewing the terms of partnership.

"(*b*) As a consequence of the above there is no restriction on the society's capital "and administration.

"(*c*) Assistance and loans granted by the banks are limited to their members.

"(*d*) As an essential condition of membership, the associates must put aside some "savings, no matter how small they may be; as a general rule the obligatory subscriptions "vary from 100 to 300 fr., which can be paid down on joining the bank, or in weekly or "monthly instalments.

"(*e*) Lastly, the unlimited liability of all the associates for all obligations con-"tracted by their bank during and previous to their membership. This principle of "unlimited liability is not, however, universal; the responsibility of members is often "limited to double, four, ten, or twenty times their share in the capital invested, and even "in some instances to the amount of that share. The Belgian law of 1873, which gives "corporate rights to co-operative societies, leaves the individual liability of members an

" open question. The risk to the Peoples banks of such limited liability has been often " pointed out; some worked on this principle have succeeded in getting support from the " National Bank, but only in cases where the solvency of the People's bank is sufficiently " guaranteed by the patronage of men of wealth and position. Should these patrons die or " resign, the banks which are hitherto traded on their credit might find themselves in " difficulties.

" The amount of good done by these banks in various ways is very great. Should an " artisan want to buy or repair his tools, he can obtain from the bank a loan for the " purpose, and buy them for ready money, and at his own choice and price; if by thrift " and economy he repays the loan, his bank is ready to advance him larger sums, varying " from 120*l.* to 200*l.*, to assist him in improving his position; nor is it only in their " business affairs that the workmen receive help from the banks. To cite only a few " instances: should he want a marriage outfit he can get it from his bank: if his son " is drawn for military service, his bank advances him the money required to buy a " substitute. The amount which each member may borrow is however limited, and in " proportion to the amount of his investments; generally the limit is fixed at twice the " amount of the latter.

" The following is an analysis of the statutes of the People's bank at Liege, one of the " oldest and most flourishing of these institutions.

" As explained in article I, the object of the bank is to procure by its collective credit " the capital needed for the industrial, commercial, and domestic wants of the members. " The capital of the Liege bank is obtained from the following sources:—

" (1) From an entrance fee of 3 fr., which go to form a reserve fund, the exclusive " property of the association. (In the event of the bank being wound up, this reserve fund " would be divided equally amongst the members.)

" (2) From shares taken up by each member of 200 fr., to be paid either at once, or " by monthly instalments of 2 fr., or by weekly instalments of 50 c. The members are not " allowed to take more than this share, in order that there may be an absolute equality of " interest, rights and liability amongst all members.*

" Until the 200 fr. share is paid up the member receives no dividend, but the amount " he would otherwise have received is entered to his account, and reduces *pro tanto* the " balance of the 200 fr. still owing. These shares remain the absolute property of the " members, and cannot be alienated.

" (3) From the member's savings.

" (4) From investments of the outside public.

" (5) From loans raised by the bank, for which all members are jointly liable, and " the maximum amount of which must be fixed by the general assembly. As a general " rule, this maximum may not exceed half the bank's capital.

" In addition to the entrance fees, a portion of the bank's annual profits is also paid " into the reserve fund, the amount so withdrawn to be fixed each year by the general " assembly, but it cannot be less than one-twentieth of the net profits. This payment from " the profits ceases to be obligatory when the reserve fund equals the tenth part of the " bank's capital.

" The affairs of the bank are administered:—

" (*a*) By an executive committee composed of the president and a salaried manager " and treasurer,† who are charged with carrying out the resolutions of the council and of " the general assembly.

" (*b*) By an administrative council meeting once a week, elected by the general " assembly, and empowered to admit or reject candidates, to appoint the executive com- " mittee, to contract loans, to make advances to members and generally to manage all the " society's business.

" (*c*) By a committee of supervision, having unlimited control over the financial " operations of the bank, which is also named by the general assembly.

" (*d*) By the general assembly, which meets at least twice a year to examine accounts " and has supreme control over all the business done by the bank. The action of the " assembly may be said to be the direct application of the principle of universal suffrage " to the control of financial matters.

" Candidates for admission into the society must present themselves at least eight days " beforehand to the administrative council, in order that inquiries may be made into their " antecedents. A member may be expelled by the general assembly if his subscription is " three months in arrear, or if it has been needful to summon him before the tribunals for " non-payment of loans, or if any serious offence has been proved against him. On the " other hand, a member may leave the bank at pleasure, after giving due notice in writing: " should a member be expelled or resign, he is none the less held personally responsible " within the limits of the conditions he subscribed on entry (4,000 fr. at Liege), during " a term of five years from the date of his expulsion or resignation for all the engagements " binding at that time on the bank.

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* This restriction is not universal: the Tournai bank, for instance, allows its members to subscribe for several shares; but this system is liable to abuse, and is hardly in harmony with the democratic spirit governing People's banks.

† This committee of the Liége bank is now assisted by paid clerks, on account of the great extension of its business.

" Loans can only be made to members, and under certain conditions and guarantees. " they cannot be less than 10 fr., nor exceed 4,000 fr.; they are made for three months at " most, but this period can be prolonged by the council. To obtain a loan a member must—

" (1) Give the council proof of his solvency.

" (2) Show that he has paid up any previous advance, without calling on his surety.

" (3) He must have belonged to the bank for at least one month.

" Advances may be made unconditionally to the amount of the members' shares in the " bank: the executive committee may make further advances, not exceeding twice the " applicant's capital; and still larger sums may be advanced, if the applicant can find " sureties for the amount.

" The success of the People's bank at Liege has been most remarkable: starting with " but 67 members, in a small room in a back court, it enrolled in 11 years over 2,000 mem- " bers, and advanced 14,000,000 fr., of which total only about 65,000 fr. were lost. During " these 11 years over 106,000 fr. were distributed in dividends, and a reserve fund of " 19,000 fr. was created.

" The Antwerp People's bank has also proved very successful: the administrative " council is composed of some of the city merchants, and of one workmen's member, elected " by his fellow members, with a consultative but not a voting right on all questions sub- " mitted to the council. All candidates for admission must bear a good moral character, " and secure three-fourths of the votes of the electing council. Members can obtain loans " of sums not exceeding a maximum of 30,000 fr., to be repaid in three months' time, or " after a longer period by special consent, in each case, of the council.

" The first congress of the People's banks was held at Liege in 1869, since when " meetings have been annually held in one or other of the chief towns of the kingdom: out " of these congresses has grown the ' Federation des Banques populaires Belges,' with its " head-quarters in Brussels, and under the administration of a permanent committee, on " which all the Popular banks are represented. The object of this federation is to maintain " the unity of all the Co-operative banks during the intervals between each congress."

The bank of Argenteau is worth describing, though founded only in 1889, as a specimen of a few banks founded by Co-operative associations. The members are jointly bound for all the engagements of the society: each share is of £8. There are two classes of members, (*a*) founders who may hold five shares but may not obtain loans; (*b*) ordinary members with a single share payable weekly or monthly by instalments of 5*d.* or 1*s.* 8*d.*; these can borrow only after having paid up about £1. Founders cannot retire during the thirty years' duration of the society; ordinary members can retire after six months' notice. Of profits, 20 per cent. goes to the reserve, and the remainder up to a 4 per cent. dividend to members; any balance goes to a special reserve or as dividend. Loans may not fall below 8*s.* 4 *d.* or exceed £200. A member can always demand a loan up to the amount of his subscriptions, and to twice the amount upon his sole signature if sanctioned by the directors; beyond that amount other security must be given; the ordinary term is for six months prolongable to nine months.

SPAIN.—Besides the Positos (see *infra*), there is a bank which is considered in Spain as the type of Banque Agricole, and is held, and justly, in high esteem; this is the Banco Agricola de la Provincia de Segovia, founded in 1882 by a group of landed proprietors desirous of helping the peasantry. The bank started with articles of no special peculiarity, but has modified and developed its practice by its experience, therein presenting a precedent for Madras; it is almost impossible to draw up in advance, a scheme which shall be absolutely practicable when the facts, data, and even probabilities are unknown, or which shall not be condemned by experts and theorists at every point of novelty. It seems necessary to start in a simple way and gradually to evolve the methods suitable; *solvitur ambulando.* In the case of the bank of Segovia its operations as developed are unusual, but appear to be justified by experience; for instance it lends for periods extending to seven years its deposits demandable at call, a method adopted by Raiffeisen, who, however, had the principle of unlimited liability to strengthen his position.

Objects.—The bank is a joint stock bank with a capital of £40,000, in 2,000 shares. Its objects are—

(1) to lend in cash or in kind on movable and immovable property, including crops on the ground or tree, and flocks and herds;

(2) to receive in deposits all kinds of securities and cash, and to open current accounts with societies, corporations and persons;

(3) to issue debentures in conformity with the law of 19th October 1869;

(4) to carry on ordinary banking operations after satisfying the requirements of agriculture.

Shares.—Its shares are divided into four series, of which the first consists of 500 founders' shares issued at a discount of 25 per cent., this discount being allowed in order to attract the first working capital, and being debited to costs of installation: the share value is payable by successive instalments of 10 per cent. at two months' intervals; the remaining series are issued at par, and, whenever necessary. Shares not punctually paid upon can be treated as lapsed and sold without the intervention of court.

Profits.—Net profits found, after paying all expenses and the interest on any debentures, are divided as follows: 5 per cent. to the expenses of installation until satisfied, and thereafter to reserve which must accumulate up to at least 25 per cent. of the share-capital: 20 per cent. to the directors and secretary; the remainder as dividend.

General Meeting.—This consists only of those holding five shares or more: before the meeting such shares must be deposited in the office, and the receipt, with a ticket for the meeting, is given to the depositor: every five shares gives one vote up to a maximum of five votes. Any person entitled to take part in a meeting may, after the issue of the meeting notice, examine all the accounts, books, and balance sheets of the bank. A special meeting can be called by any six or more shareholders who would be entitled to take part in a meeting; a written demand with a statement of objects and reasons must be put in.

Disputes.—Every question which arises between the company and its shareholders must be settled by " judicial arbitration " (en juicio arbitral).

Debentures.—These are issued in series, but all details are left to the disposal of the directors. Public bodies, especially communes, are specially invited to subscribe for them, promise being given of a preference in the matter of loans to the inhabitants of such communes up to the amount of such subscriptions—a most ingenious attempt to finance their debentures.

Loans.—Mortgage loans are repayable either by amortization or in lump: any loan may be wholly or partly repaid in advance, 1 per cent. being added as commission. Only first mortgages are allowed, unless the loan is to pay off former mortgages, the two operations being then simultaneous. Loans are granted up to 40 per cent. of the value, and full proof of title of freedom from charges of due payment of rent and taxes is required, together with a deposit of all costs of inquiry, including the fees to counsel for an examination of the title. In case of incomplete or mere possessory title, two good sureties are required in addition.

Loans " de credito agricola " that is, on crops (whether on the ground or in the barn), stock, etc., are granted for the agricultural year, which is held to begin and expire on the 24th August; apparently all such loans, whenever taken, must be settled up by that date, These are the loans for which the bank is especially established. Proprietors requiring loans of this class must prove their ownership and tenants their leases and the regularity of their payments of rental; both classes must provide two sureties. Every person, proprietor or tenant, who obtains a loan of this class, becomes thereby a mere trustee, bailee or manager for the bank of the property pledged (se constituira administrador y depositario de lo que hubiere ofrecido en garantia), until complete repayment: if he fails (si se hiciere insolvente) presumably wilfully—in this trust, he incurs penaltes of the Penal Code, presumably for breach of trust, and an express entry to this effect is made in the document.

Repayment, may, by agreement, be made in kind.

The loans on cash credits amounted, in 1890, £15,420; the bank reserves its right to close such credits at any moment. Its mortgages only amount to about 2 per cent. of its assets. It is, however, its agricultural loans proper, on personal credit, which are its speciality. These last, may, by its articles, be granted for one year, and, to grant these long term loans, the method of obtaining long term capital by means of debentures which it hoped to place with municipalities and communes as investments for their endowments, was adopted, in this it was disappointed though it held out the inducements of preferential loans to inhabitants of such communes as had invested in their debentures. As a matter of fact its funds are chiefly derived from savings deposits (whether by savings banks or individuals is not clear) to the amount in 1890 of £69,030, while its paid-up capital was only £14,620.

The bank, nevertheless, extended its loans on personal security to two years, and further granted permission to repay these loans by five instalments of six months or one year each, beginning from the end of the two years; hence a maximum term of seven years, in which the borrower pays only interest for the first two years, and the debt itself with interest during the subsequent five years, a practice similar to that of the bank of Naples, which for certain mortgages, suspends amortization for the first years—a concession eminently adapted to improvements—such as the digging of wells, planting of orchards, etc.

The bank considers that for an agricultural bank these long term loans are a positive advantage to the bank, as the returns are constantly flowing in, whereas short term loans are demanded and repaid usually about the same time, such as seed time and harvest, so that the bank has its money idle for some months, and unduly in demand for others. The success of these long term loans has, so far, been complete, but its ability to meet the demands of depositors depends evidently upon its credit merely, and this again on its sagacious and honourable management. That is the difficulty, the bank is a success, but only in virtue of qualities not always available.

Its loans in eight years amounted to £546,300, no loan oridinarily exceeding £40, while a large number are much smaller, viz., £2, 4, or 8. Only about 2 per cent. of its loans are on mortgage, personal credit being the usual form granted. It is the boast of the bank that it has not yet lost a farthing, nor has it been yet obliged to seek the aid of the Courts to recover its dues at echeance.

GREAT BRITAIN.—It is not proposed to give an account of English banking as related to agriculture; the class of farmers in England and Scotland are of a position generally much superior in intelligence, capital, size of farms and methods of working, to those of the ryots of this presidency: they are accustomed to deal with banks in considerable operations; the banks regard them as any other customer and take their paper, whether bills or promissory notes, as readily as that or rdinary business men, and all this is like the agriculture, on a comparatively large scale. Out of 24,891,000 acres only 1,506,000 or 6 per cent. are cultivated in farms below 20 acres whereas in Madras 45 per cent. of the area is

cultivated in farms of 20 acres or less: in England a tenant farmer with less than £500 actual capital is a comparative rarity. Moreover most farmers are tenant farmers, whose capital is not sunk in the purchase or permanent improvements of the soil; their capital is more or less working capital (capital d'exploitation) and is used merely for stocking and working the farm. Hence, should they require credit at all, it is only for short terms for the purchase of manure, etc., and it is therefore easy, both because of their comparatively large stock, and because of the shortness of the accommodation required, to procure loans upon bills or promissory notes, or, at worst, bills of sale. Hence unless in the Scotch and Irish banks, and in certain classes of loan societies, there is little in the mere banking of Great Britain to assist this study. But in the Scotch banks, in the provisions of the Acts for the various Freindly, Co-operative, etc., societies, and the drainage and land improvement societies, there is much that is instructive, and a short notice will accordingly be now given of these institutions.

Scotch Banks.—Scotch agriculture owes so much to the banks that it would be impossible to deal with agricultural banks without mentioning them; Scotland, as Lord Macaulay has said, has been transformed by her schools and banks.

The Scotch banks, while eminently useful to agriculture, are not Agricultural banks in the ordinary sense; they are not special banks but general, dealing with all classes of commerce, trade and industry; their development was two-fold; first, in the enghteenth century they developed locally as individuals or persons who were trusted by their neighbours with savings one at least was a linen-draper at the beginning; these developed into partnerships, with a local range, like that of the country banks of England; they issued their notes as a safe and cheap substitute for gold in the old days when communications were few and dangerous. But in the beginning of the nineteenth century, as commerce and communications developed, joint stock banks were started and pushed their branches into the districts, absorbing the old private corporations and developing their business to suit the development of trade and agriculture.

Their success seems due partly to their power of attracting deposits, partly to their issue of notes which formed a cheap, portable and safe currency, partly to their invention of cash credits, partly to the thrifty and prudent characteristics of the people. They accepted on deposit very small sums (£10) and granting interest even on these small deposits which, moreover, were treated as current accounts, they developed habits of banking among a race naturally inclined to be thrifty and hard-working; these deposits finding insufficient investment, the cash credit system was invented by which operating loans were granted to solvent persons or men of known good character who gave a bond with two sureties for the maximum amount of the advance; all drawings were charged with interest, while all repayments were credited with somewhat lower interest as deposits. In this way the bank obtained a profitable investment of its funds, and an incessant circulation for its notes, since the credit was only maintained if continually operated on by drawings and repayments; on the other hand an industrious borrower got funds at the cheapest possible rate, and acquired habits of punctuality and thrift: industry in general and agriculture in particular, was immensely helped by these advances, since the Scotch farmer seldom had enough capital for improved farming, but with his industrious habits, was perfectly ready to adopt or create improvements if capital were available; the cash credit supplied these advances, and the notes furnished a cheap circulating medium profitable to the bank and convenient to the people; as banking habits grew, accounts were settled by cheque or book adjustment; the banks found it profitable to start branches first at the larger towns and then in remoter places, while their branch agents visited all the chief fairs and markets and transacted business with their clients on the spot. The original method of attracting deposits was to receive them for fixed terms at comparatively high interest; as deposits increased the method of deposits at call upon the "deposit receipt" system was adopted in addition to that of the ordinary current account. These deposits receipts bore a varying but small rate of interest, usually 1 or 2 per cent. below the discount rate of the bank of England; of late years no interest has been allowed on current accounts, which, however, are only about one-fourth of all deposits, the remainder being on deposit receipts.

The note system has, of course, been of great assistance to the banks; prior to 1845 it was unrestricted, and the advantage of carrying large sums in a small box instead of heavy coin, greatly assisted the bank's agents in pushing credit. Then, as coin cannot be demanded for the notes except at the head offices, branches have not to keep any great stocks of coin, but merely a supply of notes; in fact the "till-money" of the banks is said to be largely in notes. Mr. Michie, President of the Royal bank of Scotland, states ('Forum,' September 1893) that while the authorized issue (restricted since 1845) is £2,676,000, against which no cash need be held, and the average *excess* issue, against which coin must be held, is perhaps four and-a-half millions, the till-money held by the banks at their thousand offices is at least seven millions and probably much more; hence, while the direct profits of the note system are not great, the indirect profits are very considerable. The matter, however, is hardly of importance in India, which has, and will have merely a State paper system; it is mentioned to show one great cause, especially in the days of bad communications and frequent highway robberies, of the success of the Scotch banks.

The result of this is that even at the preent day coin, especially gold, is comparatively little used in Scotland; everybody down to the domestic servants banks, so that the notes of the banks or their cheques are the common circulating medium; everybody is thrifty for

the banks not only receive very small sums, but invite them by paying 2 per cent. interest thereon; deposits in 1890 aggregated £89,000,000 (£93,000,000 in 1893) for a community numbering only 3,735,000. There are ten banks with 945 branches (in 1887) which penetrate even to the villages; practically a bank is within everybody's reach, there being one (branch) for every 3,910 people, a number with which Switzerland alone can compare (Australia excepted) having one bank including, however, savings banks, for every 3,300 people; the Madras Presidency would require above 9,000 banks or branches on the same scale.

The problem is, how did the Scotch banks manage to push these branches without loss; a central bank cannot usually, and, in fact, has nowhere succeeded except in England, Scotland and Australia in sending out numerous rural branches; the expenses of paying the establishment of a rural branch while waiting for custom are usually deterrent, and the risks are always considerable. Probably there were at first considerable losses, but the chief reasons for success seem to be (1) that the bank's agents first went out with a box of notes to markets and fairs and made themselves and their bank's credit and other facilities known to the farmers; these were induced—this is certain—to send in their savings even 40 or 50 miles to the market town or to leave the proceeds of their dealings there on market day, rather than keep their money at home or take it home without interest at risk of loss; as soon as the bank became fairly known in a circle, it sent out a branch there; in other words the banks began by agents who went to the people; then they placed branches at market towns and attracted a clientele, before they sent out branches to the smaller places; (2) they found a clientele all ready to hand (*a*) in the clients of the older corporations, (*b*) in a population ready, with Scotch shrewdness to place their money at interest and in safety (3) the notes of the banks and cheques drawn on them formed a safe and easy method of transferring funds, which, till recent developments of communication, otherwise ran great risks; (4) not only was there a ready a thrifty clientele, but the class of farmer was more considerable than that found in Continental Europe and in Madras; the farms are of considerable size, only 14 per cent. of the cultivated area being held in farms of less than 50 acres, so that cash credits and other business were concerned with considerable sums and thus made business profitable. Writing in 1873 Mr. Somers says of the Scotch banks: "Wherever there are transactions going on, the Scotch banks push them (branches) "outwards. At our great country fairs held on moors and hills at some distance from a "town or village, they open tents or booths, and sheep, lambs or cattle sold, are paid for "within a few paces of where they stand, without the handling of money by buyer or "seller" (that is by means of cheques or mere transfers of account through the bank agent). "Such is the elasticity of the Scotch banking system. Fifty or more years ago, country "people entrusted their savings to some neighbouring proprietor or cattle dealer, who had "the advantage being known to them, while the banks were yet too far away to be "known. But this irregular bank, of course, often failed, and money then came dropping "in 40 or 50 miles to the nearest town where there was a bank by the hands of the common "carrier. As such contributions increased, the bank bethought itself of opening a branch "in these virgin fields, and where one banking company went another followed. Nearness "to depositors is absolutely necessary to confidence. If you seek the custody of people's "money and more especially the money of the shy saving class, you must be known to "them and be seen by them in flesh and blood." ('The Scotch banks' by R. Somers.)

There seems no reason why similar banks should not be formed in Madras with branches in district head-quarters, therein to work out into the districts as the Scotch banks exploited the Scotch counties by agents and finally by small branches. The district, for instance, of Combatore is full of large regular weekly markets which ryots frequent to sell their produce and buy necessaries; communications are good and the country safe; this and other similar districts could easily be worked on the Scotch plan, if the men to work it were available. There are no greater risks in modern Madras than there were in Scotland in the time of Adam Smith: far less indeed; and the Scotch banks worked wholly without privileges or concessions, and solely by their own merits and by their adaptation to their environment out of which they grew. But if the energy and power of organization is wanting on the one side, and a suitable clientele on the other, then no amount of privileges or concessions will avail to render banking a success. Be it remembered that the agricultural clientele of the Scotch banks are tenant farmers, not proprietors, with nothing to guarantee their solvency save their own capacity and industry; their farm stock is generally much below the value of their cash credit; their leases are seldom or never beyond nineteen years which is the regular Scotch maximum term, and they have no proprietary interest in the land to offer on mortgage; their sureties merely depend on the character of their principal and the object of the loan. A Madras ryot has, however, his land as well as his stock; neither may be very valuable, but together they form a tangible and complete security. Communications, Courts, security, are all far better in 1892 in Madras than in Scotland in 1792, and there is no discoverable reason why banks started in a modest way by Indian capitalists should not abundantly succeed if they will be content with moderate establishments and modest profits.

Friendly and other Societies.—These will be noticed in order to bring into prominence the facts (*a*) that there are numerous Loan, etc., Societies in Great Britain deserving of study by the Indian public; (*b*) that these are chiefly of the mutual or co-operative type; (*c*) that they are regulated by special laws; (*d*) that they are granted certain privileges;

(*e*) that they are subject to considerable and increasing control not only in the laws, but by a special officer; (*f*) that the numerous Nidhis of Madras probably originated in one class of them (Building Societies), and yet have neither the laws nor the privileges nor the control found necessary for them in England; there are in Madras numerous Co-operative or Mutual Societies, but no co-operative law as everywhere else in the world.

The British societies, inclusive of the ordinary Joint Stock Companies, which grant credit are (1) The Friendly Societies and Societies specially authorized and registered under the Friendly Societies Act; (2) Industrial and Provident Societies; (3) Benefit Building Societies; (4) Incorporated Building Societies; (5) Certified Loan Societies. The Acts are as follows: the Friendly Societies Acts, 38 and 39 Vic. (1875), Cap. 60, as amended by 50 and 51 Vic., 1887, Cap. 56: the Industrial and Provident Societies' Act 56 and 57 Vic. (1893); the Loan Societies Act, 3 and 4 Vic., Cap. 110; the Benefit Building Societies Acts, 10 Geo. IV., Cap. 56, 6 and 7 Will. IV., Cap. 72, and 4 and 5 Will. IV., Cap. 46: the Building Societies Acts. 37 and 38 Vic. (1874), Cap. 42, and subsequent Acts including the new Act of 1894. All the above societies are distinct from one another and are governed by distinct laws, even when the granting of credit is a common object. The material portions of these Acts and the Treasury rules relating to them will be found in another Appendix.

All the above S cieties as well as some others, but not Companies under the Companies' Acts, may register themselves in the office of the Registrar of Friendly Societies; such registration is voluntary, but seems to be nearly universal, since many privileges result from the Act, these will be mentioned under the separate classes of Societies.

The public functions of the Registrar, who has been called the 'Minister for Thrift,' are as follows *:—

10. The chief public functions of the Registrar (without here distinguishing those which are reserved to the Chief Registrar) fall under the following heads:—

(*a*) Registering or otherwise recording the rules, and generally the leading events in the life of the societies with which he has to do (savings banks excepted).

(*b*) In some cases, chiefly under the older Acts, certifying that rules are in conformity with the provisions of the special Acts, or with law generally.

(*c*) Receiving and enforcing the sending of the various returns required by law, and in most cases keeping such returns when received.

(*d*) Giving official copies of documents in his custody.

(*e*) In certain cases determining upon disputes, either generally, as in the case of savings banks, or under specified circumstances, in the case of societies under the Friendly Societies Acts, the Industrial and Provident Societies Act, and the new Building Societies Acts.

(*f*) Prosecuting for various offences under particular Acts, or in some cases for fraud or misapplication of the funds of societies, or, in some of the latter cases, authorising prosecutions by members.

(*g*) In some classes of societies, authorising changes of name.

(*h*) In some classes of societies, exercising on the application of a definite minority of members a limited amount of interference with societies by (1) inspections; (2) the holding of special meetings; (3) if need be dissolution of the society.

(*i*) As respects some classes of societies, giving directions for the transfer of certain securities.

(*k*) As respects some classes of societies, with the approval of the Treasury, preparing and circulating model forms, circulating useful information, and constructing and publishing certain tables.

(*l*) In one case only, certifying for exemption from rates.

(*m*) Reporting yearly to Parliament.

11. But it forms no part of the functions of the Registrar—

To advise members or officers of some 30,000 different bodies as to the best mode of carrying on their business, or as to their legal rights or remedies.

To interfere of his own motion in the management of such bod es.

To overhaul their accounts.

To compel them to follow good advice, or prevent their going to ruin with their eyes open.

The Registrar has no power to ensure the good management of soc'eties, nor does registration guarantee the solvency or honesty of a society. But such registration and the supervision consequently exercised, is a very material help to good management, and a most wholesome check upon dishonesty, negligence, and incapacity which is often neither dishonest nor negligent, but simply ignorant and inept, *e.g.*, full provision must be made by registered societies for the settlement of disputes, which may be referred to the Registrar, who then has the powers of a Court; or if the rules provide for application to a Court, the dispute shall be decided by a Court of summary jurisdiction or by a County Court. Again a wholesome set of rules is provided by the special law for the protection of individual members; so also, a small minority can call upon the Registrar to inspect the affairs of a society, and even to dissolve it, if its affairs require dissolution; audit and valuation are made compulsory and public auditors and actuaries are rendered available to the societies. It is obvious that these functions are very different from those prescribed for the Registrar of Companies under the Indian Companies Act.

* The following and other rules, distinguished by numbers, are taken from the official 'Guide book of the Friendly Societies' Registry office, 1893.

Friendly Societies, etc.—These are not in themselves loan societies but were established, —and now have an enormous membership,—to provide for relief in sickness, old age, widowhood, etc., etc., for funeral expenses, for instance of tools, etc., against fire, for endowments; they may also, under section 18 of the Act, out of a special loan fund contributed for the purpose by members, grant small loans not exceeding £50 to members only. But under the Acts now governing the Friendly Societies (1875 with amending Acts in 1876, 1882 and 1885), four other classes of societies are admissible, viz., Cattle Insurance Societies Benevolent Societies, Working Men's Clubs, and Specially Authorized Societies. These are all registered under the Friendly Societies Acts and enjoy the same privileges. Of these the fourth group embraces numerous classes of societies, amongst which are (*a*) Mutual Societies to create funds by monthly or other subscriptions to be lent out to or invested for the members of a society or for their benefit; (*b*) Societies for promoting Agriculture, (*c*) Societies for promoting thrift by receipt of savings etc. The authorization is given by the Treasury, and under an order dated 16th May 1876, a large number of Loan Societies have been registered, more particularly in Ireland. These are subject to the rules prescribed under section 18 of the Act, the loans may rise to a maximum of £50 and must be granted to members only; deposits may be received aggregating not more than two-thirds of the aggregate sums due at the time to the Society by borrowing members. No member can hold an interest of above £200 in the fund. These Specially Authorized Societies have the privileges of Friendly Societies as regards the protection of their members individually *e.g.*, a member has rights as follows;—

To inspect the books at all reasonable hours at the registered office, or wherever the same are kept (with an exception as to loan accounts);

If aged 16 at least, by writing under his hand delivered at or sent to the registered office of the society or branch, or made in a book kept at such office, to nominate any person, not an officer or servant of the society or branch (unless such officer or servant is the husband, wife, father, mother, child, brother, sister, nephew, or niece of the nominator), to whom any moneys payable by the society or branch on the death of such member shall be paid at his decease not exceeding 50*l.* or under the Provident Nominations and Small Intestacies Act, 1883, not exceeding 100*l*;

By writing under his hand, similarly delivered or sent, to revoke or vary any such nomination;

On dissolution of a Friendly Society, if claiming any relief or benefit, to have his claim satisfied or adequately provided for before division of funds;

792. As a matter of fact, however, with one exception all special authorities hitherto granted have been "limited" ones, *i.e.*, they have limited the application of the Act in respect of societies registered under the authority.

793. The limitations have varied according to the authority, but they have hitherto invariably excluded societies availing themselves of them from the special privileges of the Act, as exemption from stamp duties, priority against the estates of officers, certificates of death at reduced rates, etc.

The Treasury has, in the special authority of 16th May 1876, limited (section 9 of the Act) these special Loan Societies, by refusing them the general privileges granted to Friendly Societies, viz., exemption from certain stamp duties (not important except as to orders or receipts for money), rights to services, on payment, of public auditors and valuers, exemption from Income-tax, discharge of mortgages by mere receipt endorsed on the deed, facilities for settlement of disputes, etc.

These Loan Societies are, however, bound by the other provisions of the Act, of which the chief provisions will be found in another Appendix.

All officers under the Friendly Societies Acts having receipt or change of money must give a bond with at least one surety, or give the security of a Guarantee Society for such sum as may be directed.

Some of the privileges of Friendly Societies are as follows:—

(3) If an officer of the society dies or becomes bankrupt or insolvent, or if an execution is issued against him whilst he has money or property of the society in his possession by virtue of his office, the trustees of the society are entitled to claim such money or property in preference to any other creditors.

(4) If the society has stock in the funds in the names of trustees, and a trustee is away from the United Kingdom, becomes bankrupt, etc., or a lunatic, dies or has been removed, or if it is unknown whether he is alive or dead, a registered society, instead of having to apply to the High Court of Justice, or to take any other proceedings, which it would have to do if unregistered, can have the money transferred by direction of the Chief Registrar on payment of 1*l.* fee.

(5) The documents of the society are for the most part free from stamp duties.

(6) The society can admit members under 21 (but above 16), and take binding receipts from them, which would otherwise be of no effect.

(10) If it invests money on mortgage, such mortgages can be discharged by a mere endorsed receipt without reconveyance.

(11) Its officers are legally bound to render account and give up all money or property in their possession on demand or notice, and may be compelled to do so either by the county court of the magistrates.

(12) Disputes may be legally settled according to the society's own rules or if no decision is made within 40 days after a decision is applied for, by the county court or the

magistrates, or if both parties desire it, and the rules do not forbid, by the Registrar of Friendly Societies.

(13) Members of registered Friendly Societies have the privilege of legally insuring money on the deaths of their wives and children for their funeral expenses without having an insurable interest in their lives (such insurances are void by Act of Parliament if effected with an unregistered society).

(14) Members of registered societies may (unless in benevolent societies or working men's clubs) dispose of death of sums payable by the society, not exceeding 100*l.*, by written nomination without a will, and this nomination may be made by youths of 16, who cannot make a will till they are 21.

(15) Where there is no will and nomination the trustees may distribute sums under 100*l.* without letters of administration being taken out (a person who should do so in any other case would make himself liable for the debts of the deceased).

(16) Money due to a member of illegitimate birth may be thus distributed as if he had been legitimate (under ordinary circumstances it would go to the Crown).

(17) The society is entitled, without being in anywise compelled so to do, to call in the services of the public auditors for the auditing of its accounts, and those of the public valuers for the valuing of its assets and liabilities at fixed rates of fees.

(18) Its rules and other important documents relating to it are placed on record in a public office, from whence authentic copies can be obtained, which are evidence in any court of justice. This is of great consequencea in proving title to land, and in cases of prosecution by the Society.

(19) Registered Friendly Societies which do not assure any gross sum exceeding 200*l.* (the general limit), or any annuity exceeding 30*l.*, are not chargeable under Schedules C or D of the Income Tax Acts.

Industrial and Provident Societies.—These are the societies generally known as co-operative; under the Act of 1876 (now 1893) the various Co-operative Societies of production, distribution and consumption are incorporated and governed. It will be noticed that these Co-operative Societies are governed by a special and not by the general Company law; this is also the case in Europe generally, especially in Germany and Switzerland, while the other countries devote special sections of the general law of societies to this form, which differs essentially from the ordinary Joint Stock Company. India has nothing of the sort, and the numerous Madras Mutual Societies (Nidhis) are governed by a law which does not apply to several of their conditions, and is otherwise not altogether suitable or sufficient.

The provisions of the Act are similar to those of the Friendly Societies Act; but the objects of the societies are the carrying on of any trade, labour or handicraft, whether wholesale or retail, including the buying and selling of land, and banking, with however special restrictions.

A society registered under the Industrial and Provident Societies Acts has (or its members have) the following advantages over a company registered under the Companies Acts.

1st. Whilst the minimum fee of registering a company is 2*l.*, and such fee may rise as high as 50*l.*, the first registry of a society under the Industrial and Provident Societies Act is gratuitous.

2nd. Its capital need not be fixed, so that it does not require to give notice under a 5*l.* daily penalty of any increase in such capital, and it may also be withdrawable.

3rd. The society has a special remedy on summary conviction whenever any person—

(*a*) obtains possession of any of its property by false representation or imposition;

(*b*) having possession of any of its property, withholds or misapplies it;

(*c*) wilfully applies any part of such property to purposes other than those expressed or directed in the rules and authorised by the Act.

The penalty being a fine not exceeding 20*l.*, with costs not exceeding 20*s.*, and in default of payment imprisonment, with or without hard labour, for not exceeding three months.

4th. If the society has stock in the funds in the name of trustees, and a trustee is away from the United Kingdom, becomes bankrupt, etc., or a lunatic, dies or is removed, or if it is unknown whether he is alive or dead, instead of having to apply to the High Court of Justice, the society can have the stock transferred by direction of the Chief Registrar, on payment of 1*l.* fee.

5th. The society can admit members under 21 (but above 16) and receive binding receipts from them.

6th. It has certain special privileges in the holding of copyhold property.

7th. If it invests money on mortgage, such mortgages can be discharged by a mere endorsed receipt without reconveyance.

8th. Its officers are legally bound to render account and give up all money or property in their possession on demand or notice, and may be compelled to do so either by the county court or the magistrates.

9th. Disputes may be legally settled according to the society's rules. or if there is no direction in the rules, or if no decision is made within 40 days after a reference of the dispute is applied for; by the county court or the magistrates, or if both parties desire it, and the rules do not forbid, by a Registrar of Friendly Societies.

10th. Members (including minors above 16) may dispose at death of their share in the society, where the amount credited to them does not exceed 100*l.*, by written nomination without will.

11th. Where there is no nomination and no will, the committee may distribute sums not exceeding 100*l.* without letters of administration being taken out, with power to take account of claims through illegitimate persons.

12th. The society is entitled, without being in anywise compelled to do so, to call in the services of the public auditors for the auditing of its accounts and returns; (services must be paid for).

13th. Moneys payable by a member to the society are recoverable as a debt.

14th. The society as such is not chargeable under Schedule C or Schedule D of the Income Tax Acts, unless where it sells to persons not members, and the number of its shares is limited either by its rules or practice.

15th. A certain proportion or number of the members may obtain, on application, the appointment of an inspector or the calling of a special meeting by the Chief Registrar.

16th. The members have a right to inspection of books and to copies of annual returns.

17th. In addition to the modes of dissolution, produced by the Companies Acts, the society may also be dissolved by an instrument of dissolution a form which appears to be generally preferred to any other, when the winding up is not a hostile one.

As regards the disposal of sums due at death the following privilege is important.

With respect to payments on the death of members, where the amount credited to a member in the books of the society does not exceed 100*l.*, such amount is payable to his nominee.

Within the above limit the right of the nominee takes precedence of that of a personal representative (executor or administrator).

If a member to whom not exceeding 100*l.* is credited dies without having made a nomination which remains unrevoked at his death, but leaving a will, the executor is the person entitled.

But if such member leaves no will, his interest in the society is transferable or payable without letters of administration to or among the persons who appear to a majority of the committee, upon such evidence as they may deem satisfactory, to be entitled by law to receive the same.

Under the Provident Nominations and Small Intestatics Act, 1883, when a member entitled to make a nomination is illegitimate and dies intestate without making a nomination which is subsisting at his death, the committee may pay the sum which the member might have nominated to or among the person or persons who, in the opinion of the majority of them, would have been entitled thereto if the member had been legitimate.

If there are no such persons, the deposits may be dealt with as the Commissioners of the Treasury may direct.

Under the Industrial and Provident Societies Act, 1876, any payment or transfer by the committee to any person who at the time appears to them to be entitled is valid and effectual against any demands made upon the committee or the society by any other person.

Each registered society forms a body corporate with limited liability; the reason for this latter restriction is not known. Nor can any single member have an individual interest of above £200 in its funds. Provisions as to disputes, inspections, etc., by the Registrar, audit, etc., are the same as in the Friendly Societies Act.

As regards the grant of credit, apparently any society may provide by its rules for the advancing of money to any of its members on the security of real or personal property [section 12 (2)], but besides this, societies may be specially devoted to banking [section 10 (2)]. These, however, are restricted as follows; no society which has any "withdrawable share capital" shall carry on the business of banking [section 10 (2) (*a*)].

It is not, however, considered to be banking if a society takes deposits of not more than five shillings in any one deposit, and not more than £20 from any one depositor, payable on not less than two clear days' notice; hence any society under the Act may bank to this extent.

984. Every society which carries on the business of banking must, on the first Mondays in $\frac{\text{February}}{\text{Augus}}$ in each year, make out and keep conspicuously hung up in its registered office and every other place of business belonging to it, a statement in the following form, or as near thereto as circumstances permit:—

1. Capital of the society—
   - (*a*) Amount of each share.
   - (*b*) Number of shares issued.
   - (*c*) Amount paid upon shares.
2. Liabilities of the society on the 1st day of January (or July) last previous—
   - (*a*) on judgments,
   - (*b*) on speciality,
   - (*c*) on notes or bills,
   - (*d*) on estimated liabilities.
3. Assets of the society on the same date—
   - (*a*) Government securities (stating them).
   - (*b*) Bills of exchange and promissory notes.
   - (*c*) Cash at the bankers.
   - (*d*) Other securities.

985. A society failing to make out, or keep conspicuously hung up, such statement as aforesaid commits an offence under the Act.

986. It may be observed that in some parts of the country the Industrial and Provident Societies Act is beginning to be used somewhat extensively by loan societies and money clubs registering as societies for carrying on the business of banking.

There is no exemption from stamp duties, the co-operative Union having expressly requested, when the Act was revised in 1876, that the previous exemption might be taken away. The societies are however exempt from income-tax in their corporate capacity being ' mutual ' societies.

All officers having receipt or charge of money must, if the rules so require, become bound either with or without a surety, or give the security of a guarantee society. In these, as well as in the Friendly societies, the registrar has considerable powers and important functions as noted above.

Benefit Building Societies.—These come under 6 and 7, Will. IV, Cap. 32, and are not incorporated; they cannot be added to, since all new ones come under the Building Societies Act of 1874.

The primary object of these societies was to enable each member to secure out of the funds the value of his share or shares, to erect or purchase one or more dwelling house or houses, or other real estate, to be secured by mortgage to the society until the amount of the share or shares be fully repaid with interest. Each share may be worth not more than £150, payable by £1 per month at most.

There is nothing particular in the provisions for these societies, save that their documents are exempt from stamp duty except in case of mortgages by non-members and by members for sums not exceeding £500. Mortgages are also cancelled by mere endorsement of a receipt on the deed.

The most notable of these societies is the Birkbeck, which is practically a bank; the recent run upon its deposits, and the ease with which it paid the demands, will long be remembered.

Building Societies under the Act of 1874.—These are the modern form, and their purpose is " to raise by the subscriptions of the members a stock or fund for making " advances to members upon security, of freehold, copyhold or leasehold estate by way of " mortgage." It will be seen at once that though this includes the borrowing by mortgage upon a house of the sum necessary to obtain that house after the now usual fashion, it also gives the society the status of a mere loan society, and they form, in fact, true mortgage loan societies for the English small folk. As such, and as the obvious exemplars of the Madras Nidhis (*q.v.*) they deserve careful study.*

The leading methods of these societies are (1) the association of a number of members which may vary from time to time; (2) the subscription of shares by such members by regular periodical (weekly or monthly) payments; (3) the borrowing by the society of other funds up to the maximum allowed by law, viz., two-thirds of the amounts secured by mortgages from members; (4) the lending out of these funds to members; (5) the repayment to non-borrowing members of the amount of their subscriptions with profits at the end of a given period; (6) the repayment by borrowing members of their loans by means of the perodical subscription.

Hence these societies are societies of thrift and investment as well as of credit; the non-borrowing member is induced to save by the hope of profits, and having once begun to subscribe is obliged, by the rules, to continue regularly to save; at the end of a fixed period, he can draw his savings with profits in lump and otherwise invest them; the borrowing member, on proper security obtains a loan and repays it by his enforced periodical instalments; *e.g.*, if a share is worth £25, the period seven years, and the monthly subscription 5*s.*, at the end of seven years, the non-borrower would have subscribed £21, and would receive £25. But a borrower who, after subscribing for a month or two, wishes to borrow £25 can do so on giving due security, and, after receipt of his loan, will have to pay monthly his 5 shillings *plus* interest; at the end of seven years his debt will be balanced by what would otherwise be due to him as a member, and he is relieved from his debt. This is, of course, the well known Madras Nidhi system.

Societies are permanent and terminating; the latter are wound up at the end of each period or they throw out a new branch before the termnation of the period; in these a person who joins otherwise than at the beginning of the period must pay up all back dues. This is inconvenient, so that societies are now frequently permanent, *i.e.*, a member may join either at any time, or at the beginning of one of a frequent series of subscriptions; shares are thus incessantly beginning and maturing.

The number of these societies is very large; recently there were 2,860 societies incorporated under the Act of 1874 with about 600,000 members, £50,000,000 in assets and about £18,000,000 annual income. There are numerous publications relating to them, and several periodicals, of which the ' Building Societies Gazette ' is well known. These societies might be registered under the Companies Act, but registration under the Building Societies Act gives the following advantages:—

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* This chapter will be found in a completely revised form in Appendix II in the forthcoming second voulme of this report.

1085. By registering under the Building Societies Acts it obtains the following advantages over a company (most of which are common to it with co-operative societies:—

(1) Registration at a fee of £1, instead of one rising from £2 to £50.

(2) Its capital need not be fixed, and may be withdrawable.

(3) It has certain special remedies on summary conviction.

(4) It can, in certain cases, obtain transfer of stock in the funds held in the names of its trustees by direction of the Registrar.

(5) It can have minor members.

(6) It has certain special privileges in the holding of copyhold property.

(7) Its mortgages are discharged by receipt endorsed.

(8) Its officers are legally bound to give account and deliver up property.

(9) Disputes may be legally settled by arbitrators, by the Court or by the Registrar.

(10) Sums due to deceased members not exceeding 50 may be paid without administration.

(11) Sums not exceeding £150 due to the infant heirs of mortgagor members dying intestate may be paid to the administrator.

(12) Documents relating to the management of the society are exempt from stamp duty.

(13) In addition to the modes of dissolution provided by the Companies Acts, the society may be dissolved in any manner provided by its rules, or by registered instrument of dissolution.

(14) Without being bound to add the word "limited" to its name, the society obtains practically limited liability for its members.

1086. A society registered under the Building Societies Acts enjoys over one registered under the Industrial and Provident Societies Act the advantages numbered above 11, 12 and 14.

1087. On the other hand, as compared either with a company under the Companies Acts or a society under the Industrial and Provident Societies Act the incorporated building society is restricted from holding land generally, and as compared with the latter society has not the advantages mentioned in section 990.

1088. With respect to the holding of land, so far as is necessary for its purpose a building society has power to hold land with the right of foreclosure.

1089. But any land to which a society may become absolutely entitled by foreclosure, surrender, or other extinguishment of the right of redemption must, as soon afterwards as may be conveniently practicable, be sold or converted into money.

1223. The liability of a member is limited, in respect of any share on which no advance has been made, to the amount actually paid or in arrear on such share.

And in respect of a share on which an advance has been made, to the amount payable thereon under any mortgage or other security, or under the rules.

1224. The rights of members are much less extensive than those of members of societies under the Friendly Societies Acts or the Industrial and Provident Societies Act.

As regards payments of money due at death the following privilege is noteworthy:—

1229. Where a member or depositor having in the funds of the society a sum not exceeding £50 dies intestate, a member of building society has no power of nomination, but the amount due may be paid to the person who appears to the directors or committee of management to be entitled under the statute of distributions without taking out letters of administration.

But the society must have (1) satisfactory evidence of the death, (2) a statutory declaration that the member or depositor died intestate, and that the person claiming is entitled under the statute of distributions.

Payment made by the society to the person who at the time appeared to be entitled to the effects of a deceased member or depositor under the belief that he had died intestate is valid and effectual with respect to any demand from another person as next-of-kin or as lawful representative of the deceased; but such person has his remedy for the amount paid against the person who has received it.

1230. If a mortgagor member dies intestate leaving an infant heir or infant co-heiress, the society after selling the mortgaged property may pay to the administrator or administratrix of the deceased any money not exceeding £150 remaining in the hands of the society after payment of the amount due to the society and costs of sale, without being required to pay it into the Post Office Savings Bank under the Trustee Relief Acts. The £150 is to be considered personal estate, and liable to duty accordingly.

Societies are either "permanent" or terminating." They may raise funds by the issue of shares, and may repay those shares when no longer required.

1106. Building societies under the Act may receive deposits or loans from members or other persons, or from corporate bodies, joint stock companies, or any terminating building society.

But the total amount received on deposit or loan and not repaid cannot at any time exceed—

in a permanent society, two-thirds of the amount for the time being secured to the society by mortgages from its members:

in a terminating society, either two-thirds of the amount so secured or twelve months' subscriptions on the shares for the time being in force, whichever may be the limit prescribed by its rules.

1107. And every deposit book or acknowledgment or security of any kind given for a deposit or loan by a society must have printed or written therein or thereon the whole of the 14th and 15th sections of the Building Societies Act, 1874, viz., as to the limitation of the liability of members and as to the power to borrow money.

1127. The rules must provide for an annual or more frequent audit of the accounts.

1128. And also, for the inspection by the auditors of the mortgages and other securities belonging to the society.

1129. Provision must be made for the settlement of disputes between the society and any of its members or persons claiming by or through a member, or under the rules.

1130. Such disputes may be settled in three different ways, viz., by reference—

(*a*) to the county court (which is the court under the Act);

(*b*) to the registrar;

(*c*) to arbitration.

1131. The rules must determine which of these three modes is to be adopted. They cannot provide for the adoption of more than one of the three modes, whether generally or in particular cases or events.

But the parties to a dispute may always agree to refer such dispute to the registrar.

And the court may also hear and determine a dispute in the cases after mentioned.

1132. The three modes indicated are the only ones by which a dispute can be validly settled. No provision for the determination of the disputes of a building society under the Act by a general meeting or by the board of directors can be registered.

1133. But the registrar does not object to a rule requiring all disputes to be considered in the first instance by the board of directors, acting as a kind of court of conciliation, with the object of bringing the parties to terms.

Every officer having receipt or charge of money must give a bond with at least one good surety, or else the security of a guarantee society.

The important sections of the Act wll be found in Appendix II.

In practice, numerous defects have been found and many scandals have resulted. It has long been urged both by Government and building societies' officials and experts that the law should be amended largely in the direction of greater supervision and publicity. The chief defects are as follows:—

(*a*) The results of the ballot or ballot and sale system of granting loans.

(*b*) Insufficiency of powers granted to members or to the registrar for the safety of members.

(*c*) Defective mode of valuing securities, and insufficiency of security for creditors.

(*d*) Want of limitation of amounts loanable to any one member.

The first defect is universal in this form of society and seems inseparable from it. The funds of these societies are limited; when all funds proceed from subscriptions of members, and three out of four wish to borrow, borrowers must be content to wait sometimes for years before a loan can be obtained. The borrowing powers or facilities of a society are moderate and do not solve the difficulty. Hence, in granting loans, the directors have to decide questions of priority. There are three modes: (1) priority in order of time, (2) auction-sale, (3) ballot or rather decision by lot. The first is generally considered objectionable; it permits favouritism, bribery and false documents to any extent. The second is the general American plan, by which the member who bids the highest premium or consents, by bid at Dutch auction, to accept the lowest amount, obtains the loan; this frequently amounts to a mere exploitation of need; the sum at auction is, say £100; the member who is most sorely in need will perhaps agree to take £75, his loan being, of course, entered as £100, the remaining £25 going as a premium to the society; in another method he agrees to pay interest above the minimum rate, the rate being determined by auction. The third system lets in gambling to such an extent that the new law of 1894 forbids the system; the grant of the loan of £100 is decided by lot; it falls to A, who does not really want it, but has entered the competition on the chance of winning the lot; he therefore, sells his success to B, who does want the loan, and who therefore pays A, £10 or £20 for the favour. Hence the borrower is exploited, the society loses the premium, and A pockets it.

The second defect was that members had no power as in the Co-operative Societies Act, of inspecting the books, nor could a moderate number of members apply to the registrar to appoint inspectors to examine and report on the affairs of the society, or to investigate with a view to winding it up. Nor had the registrar powers to cancel or suspend the registry of a society for good cause shown, or to demand returns in particular forms.

The third defect is equally important, as in Madras; the societies could borrow up to two-thirds of the " amounts " secured to them by loans to members. Most of the securities are real property and may easily deteriorate; some have been over-valued, and so on. If societies are allowed to borrow up to two-thirds of the " amount " instead of to two-thirds of the " value " of the securities, creditors may be insufficiently secured. The parallel case in Madras and elsewhere is the habit of calculating profits by valuing debts at their nominal amount instead of at their actual value.

The fourth defect is very frequent; directors and their friends or favourites obtain unlimited loans to the detriment of the members generally.

The result has been a new law (August 1894) in which the leading features are the increased control given to the registrar and provisions for the greater safety of members and creditors. Section 2 requires returns to the registrar in forms prescribed by him, containing full particulars of the affairs of the society, and in particular a statement of all mortgages in several classes; the auditor must certify that he has actually seen the deeds of each such mortgage and all other securities. Section 3 provides that at least one auditor must be a public accountant. Section 4 provides that the registrar may, on the application of ten members of not less standing than one year, appoint an expert to inspect and report on the books of the society; section 5 relates to the registrar's powers to appoint an inspector to examine and report upon the affairs of the society, or to call a special meeting, and paragraph 5 enables him, with the consent of the Secretary of State, to exercise these powers without such application where the society has failed to make due returns, or where not less than three members make affidavit of facts which call for investigation. Section 6 enables a registrar to suspend or cancel the registry of a society if it has wilfully and after notice violated any of the provisions of the Acts. Section 7 enables a registrar to wind up a society upon the application in writing of one-tenth of the members. Section 12 forbids the granting of advances upon ballot or lot. Section 13 prohibits advances upon second mortgage unless the society holds the first mortgage. Section 14 requires in calculating the borrowing power of a society, the exclusion from the assets of all amounts secured on properties on which payments have been twelve months in arrears on the date of the last balance sheet and all amounts secured on properties of which the society had been in possession for twelve months. Section 15 refuses a society power to receive deposits except on condition that " not less than one month's notice may be required by the managers of a society before repayment or withdrawal." Such are the chief provisions of the very newest law on this subject, and it will be seen how large are the powers now given under certain conditions to the regisrar and what precautions are thought necessary to secure the members and the public.

An example given by Mr. Ludlow (late Registrar of Friendly, etc., Societies) may explain the reason; a certain society was receiving subscriptons and deposits freely; it was registered not under the Building Societies Act, but under the similar rules of the Co-operative Societies Act which gave the registrar large powers of inspection. Suspicion was aroused, and the registrar ordered an inspection; it was at once found that the Manager (Secretary) was the society and practically appointed the directors; that there had been no meetings for two years; that there were no regular accounts or books; that the published balance sheet was absolutely false, such as £3,600 invested in public funds, of which there was not a penny; £2,314 as balance at bankers when there was not even a banking account, and so forth. Here the necessity for a proper law providing for inspection, etc., was evident. Those who have studied the history of the liquidation of Madras Building Societies (*see* ' Nidhis ') can recall very parallel cases; what is necessary in England is not less necessary in Madras.

Certified Loan Societies (3 and 4 Vic., Cap. 110). The object of these is to make loans to the industrious, recovering them by instalments; they may be benevolent, mutual and general.

All rules must be submitted to the registrar.

1460. The registrar has to ascertain—

(*a*) Whether the rules or alteration are calculated to carry into effect the intention of the parties;

(*b*) Whether they are in conformity with law.

If required he advises with the clerk or secretary of the society.

1461. In examining the rules, the points which the registrar has chiefly to look to are—

(1) The payment to be made for inquiries

(2) The scheme for the payment of instalments and interest.

(3) The absence of all fines or penalties for irregularity in paying instalments.

(4) The providing for entering all the borrower's payments in his pass-book.

(5) The providing for the amount of security to be given by the Treasurer, etc.

The cost of all enquiries prior to loan, provision for pass book and other papers, must not exceed 1*s.* 6*d.* in all; repayments must be made according to certain schemes of instalments laid down in the Act; all repayments must be entered up in the pass book; the maximum loan is £15, and the maximum interest, payable by deduction as discount, is 12 per cent. per annum. The society is managed by a trustee or trustees who are wholly responsible. All officers in charge of money must give a bond with sureties. Regular annual returns and balance sheets must be made out and sent in to the Registrar for submission to Parliament.

The societies may receive deposits and issue debentures against them. In case of default in repayments the matter may be laid before the nearest Justice of the Peace who must summon the defaulter, hear the case, and give judgment with costs; failing payment the award may be recovered by distress and sale of goods, subject only to the landlord's claim for rent.

The societies are further privileged by exemption from stamp duty as follows:—

1499. No note signed for the security of any loan under the Act, nor receipt or entry in any book of receipt for money lent or paid, nor draft or order, nor appointment of an agent, nor copy of a transcript of rules by the clerk of the peace or town clerk, nor debenture issued by the society, nor any other instrument whatever required to be made in pursuance of the Act or of the rules of the society is chargeable with any stamp duty, nor is a debenture liable to any parliamentary imposition whatever.

These societies, though decreasing in numbers, are increasing in strength as follows:—

Year.	Number	Members.	Funds.
			£
1876	373	30,048	155,035
1889	333	39,960	273,003

The registrar, however, considers that it would be well to abolish the Act and place all these societies under the rules for "specially authorized societies." In several counties they appear to be mere groups of petty capitalists or money-lenders, and it does not seem necessary to give the fiscal and other advantages of the Loan Societies Acts to bodies of this description.

The Loan Societies of Ireland other than those of the specially authorized category mentioned above, are regulated by other laws; they are practically benevolent institutions, the profits of which are devoted to works of public utility, such as maintenance of schools, hospitals, etc.; their administration is gratuitous. They are established to help the poor, and require Government authorization and supervision through the local Justice of the Peace. They lend up to £10 with two sureties, and only for specified purposes. Interest is 6¼ per cent., including all charges; repayment is by twenty weekly instalments; the documents are exempt from stamp duty. The tools, agricultural implements, etc., bought with these loans are stamped with the seal of the society; till this stamp is removed on the repayment of the loan, they remain free from all seizure for any debts—even for taxes—other than due to the society. A central committee nominated by the Lord Lieutenant supervises the books, returns, etc., of the societies; a return is annually made to Parliament. Nothing is known about their present work, if any.

United States.—There is in the United States an immense development of 'Co-operative banks,' generally known as 'Building Societies' or Associations. These are exactly similar in principles to those described above (*s.v.* Great Britain), and are more correctly described as co-operative banks, as in the State law of Massachusetts, seeing that for every borrower there are usually three investing members. While enabling workmen and others to purchase homes, etc., they are at least equally important as savings banks, and it is considered that vast as are the operations of savings banks, those of the co-operative banks will shortly exceed them, while these latter have the advantage of being deliberately organized as credit societies, lending on real estate. The principles and methods have been described above (*s.v.* Great Britain), but it may here be added (1) that the manuals on the subject usually insist that small local societies are the only societies which are truly co-operative and safe for members; (2) that directors must not merely take an active part in the work, but must in fact *do* most of the work, both for cheapness of administration and for the maintenance of the co-operative idea. The laws of the several States regulate these societies very closely, provide thorough supervision, *e.g.*, through the Superintendent of Banks (New York) or the Commissioners of Savings Banks (Massachusetts), and grant certain privileges (*see* chapter on 'Law.') It is hoped in Appendix II to give a more complete study on this important subject. Meanwhile the following extracts from Commercial No. 43 of 1887 will be interesting:—

"It is necessary to distinguish carefully between Savings and Co-operative banks "in the United States.

"Savings banks are incorporated under charter, by an organization of directors, the "system being similar to that of the English Savings banks. The depositors who can "subscribe for single shares obtain the interest on their money by the usual system of "dividends, and their money is invested in the usual bank or other securities.

"Co-operative banks, on the other hand, work in quite a different way. They are "organized by a few subscribing shareholders, who can commence operations at once in the "simplest way. They offer the money subscribed for auction at a general meeting, at "which the subscribing shareholders have the preference for the first bid. The subscrip-"tions are generally combined in 'blocks.' The security demanded is almost always "real estate, and thus in towns these banks pass insensibly into building loan associations. "Among the benefits secured are an immediate return for the money, which is constantly "being turned over afresh.

"These co-operative banks have spread from Pennsylvania, where they are reported "to number over 1,700 under the name of building or loan associations, over a large part "of the Union, and are recognized and protected by law in many of the States. In the "city of Philadelphia alone they number 600, with 75,000 members, and an aggregate "capital of 80,000,000 dollars.

" In Pennsylvania little or no distinction is made between Co-operative banks and " Building associations, the latter name prevailing, and the associations undertaking the " business of banking proper in addition to that of building loans in the strict sense.

" Mr. Turner, the Secretary of the Knights of Labour, and resident in Philadelphia, " informs me that the term ' Co-operative bank ' is unknown there, and that the ' Build- " ing association ' is the only name in use. He states that they are highly successful and " increasing, and generally on a sound basis, the only danger being in cases where an " association gets into the hands of a circle of friends, who allow the rules to be relaxed " for each other's benefit in regard to the securities which are accepted for loans; but it is " obvious that this is a danger common to all forms of business, and in no way peculiar to co- " operative banking. In any case the Philadelphia Building Association was the germ " from which the Co-operative bank has sprung, and undoubtedly many of these associa- " tions now do as much business of the one kind as of the other.

" In Massachusetts, where they have now made great progress, they had no legal status " till recently, but in 1879 an Act was passed for their constitution and supervision, which " is considered a model for other States, under which they are placed on the same footing as " the Savings banks. From the annual report of the Savings Banks' Commissioners it " appears that there are now thirty Co-operative banks in Massachusetts (with 78,565 shares, " held by 11,336 numbers, of whom 2,482 are borrowers)."

The following further particulars respecting the system of Co-operative banks in Massachusetts are taken from circulars issued by the banks themselves: —

" Any person desiring to purchase shares as an investment may do so, not exceeding " twenty-five shares.

" The price per share is 1 dollar a month.

" The payments to continue until the shares are each worth 200 dollars. They are then " called ' matured shares,' or are said to have reached their ' ultimate value.'

" Before the issue of a new series the accounts are made up, and the profits credited " to the several shares. These credits help to ' mature ' the share.

" At maturity each shareholder receives 200 dollars cash for each ' matured share.' " If no profits were added, it would require 200 months (16.22 years to pay up a share, but " the profits generally reduce the time to 10 years, and this makes a very good investment. " If the shareholder omits to pay his 1 dollar a month per share, he is subject to a monthly " fine of 2 cents. per share.

" Any shareholder may borrow 200 dollars upon each of his shares if he can furnish " the security required by law. Security may be by first mortgage upon real estate, or " upon the shares themselves. If one borrow upon a mortgage, he transfers his shares to " the corporation, as additional or collateral security. Ons is entitled to borrow upon his " shares provided that the sum desired is not more than is permitted by the bye-laws. The " process for borrowing is this: When the president or other authorised person announces " that there is a certain amount of money on hand and for sale and invites bids for it (not " exceeding 2,000 dollars on one bid), the borrower bids a premium, which he by so doing " offers to pay monthly for the privilege of borrowing the money. The premium is a bonus " and goes to the general fund, and the borrower receives back his proportionate part of it. " The bids are to be in sums divisible by five; that is to say, the bid must be 5 cents 10 " cents. 15 cents and so on per share per month. The premiums are over and above the 6 " per cent. rate which is charged for the use of the money. If one bids 25 cents per share, " it will of itself equal $1\frac{1}{2}$ per cent.; so that if one bids 25 cents per share, he is in reality " offering to borrow the money at $7\frac{1}{2}$ per cent. interest.

" To illustrate: One wishes to borrow 1,000 dollars. This requires five shares, which " he may already hold, or can, after successfully bidding for the money, procure from the " secretary. If the money is ' knocked off ' at 25 cents per share, the borrower then pays " the following: 5 dollars for monthly dues (this he is to pay whether he borrows or not), " 5 dollars for monthly interest at 6 per and 1 dollar 25 cents for monthly premium—being " at 25 cents per share on five shares—the total monthly payment being 11 dollars 25 cents " on a thousand dollar loan, with premium of 25 cent per share. This payment is continued " without diminution until the shares mature, when it is plain that they offset the mortgage, " being worth 1,000 dollars in cash. At that time the payments cease, the mortgage is " discharged by the corporation, and the shares cancelled. The fines are 2 cents per month " for every dollar in arrears for interest, premium, or dues.

" When an investor becomes a borrower, the investment at once becomes a sinking " fund to pay off the loan.

" Mr. J. Q. A. Brackett, in a pamphlet on Co-operative banks, gives a short but clear description of their system and advantages, from which I quote: —

" These banks are, in general terms, corporations, the capital stock of which is paid " in not at the time it is issued, as in other corporations, but in monthly instalments of 1 " dollar upon each share; the amount realised from these instalments being at each monthly " meeting of the corporation loaned, not to outside parties, but to such shareholders in the " same corporation as desire the use of money for the purpose of purchasing or building " houses, the corporation receiving as security for its loans mortgages of such houses, " together with assignments as collateral of the stock of the borrowing shareholders, and " the profits derived from interest and premiums on such loans being credited to the whole " number of shares outstanding, and thereby increasing their value.

" The period of maturing the shares depends upon the profits made. In properly-
" conducted banks it has varied from eight to thirteen years. This has been the result in
" Philadelphia, where the system has long existed, and has met with great success. In
" Massachusetts sufficient time has not yet elapsed since the first establishment of the
" banks for their shares to mature.

" The advantages of these institutions to the person who does not care to borrow are
" that they furnish a safe and profitable investment for his earnings. As the money paid
" in at each monthly meeting is immediately loaned and paid over to the borrower before
" the next monthly meeting, there is never any large amount of cash in the treasury liable
" to loss by defalcation or otherwise. The security for loans is constantly increasing. The
" loan is secured not only by a mortgage of real estate, but by the assignment of the
" borrowers' shares, which are regularly increasing in value by the monthly payment of the
" dues thereon, and their participation in the profits of the bank, which are periodically
" credited to them. The profits are not offset by large expenses. The bank requires no
" costly buildings, only an inexpensive office to do its business, and the use of a room once
" a month for its meeting. It requires no highly-salaried officers. The secretary is the
" chief executive officer, and if he holds also the office of treasurer, as the law allows, there
" need be no other salaried officer. If he is employed by a single bank only, his duties will
" not require the whole of his time, but he can attend to them in conjunction with other
" business. In Boston three of the banks—the Pioneer, the Homestead, and the Working
" Men's—employ the same person as secretary, dividing the expense of his salary between
" them; they occupy the same room for their offices, and hold their meetings in the same
" hall, but of course on different evenings. The net profits of these three banks have never
" been less than 5½ per cent. per annum, and have been as high as 8 per cent., the average
" being over 7 per cent.

" The influence of the banks upon the depositor in cultivating habits of economy and
" thrift is great and good, but their influence in facilitating land ownership among working
" men is more important, not only to the working men themselves but to the whole
" community.

" A Co-operative bank benefits the member who contributes his money as a deposit, and
" the one who receives the money contributed as a loan. The capital of working people
" should remain with working people for their own use and benefit. The Co-operative
" bank aids in producing this result. It puts the money of the working people where it
" will do the most good, and does it in a perfectly legitimate way, in accordance with
" correct business principles, without any violation of the rights of others."

These Loan associations and Co-operative banks appear likely to take the place of the Savings banks, at any rate to a great extent. Each system has its advantages and defects.

The Savings bank receives money at any time during business hours in such sums as the depositor chooses to pay: it gives interest on the money while in the bank, and permits the depositor to take it out at any time under slight restrictions. This is good, and teaches the people to save. But the Savings bank takes no personal interest in the investor, who pays his money to an irresponsible and indifferent clerk.

In the Loan association the money must be paid in a fixed sum at regular intervals, and there are fines in case of neglect. He cannot draw his money out so easily as in the Savings bank, but this is really for his good. He is in personal contact with the president, directors, and his fellow members, and has the same interest in the disposal of the money. He has the annual report and a vote, and no one has more.

Mr. Barnard, in his work on co-operation, suggests that each class of banks might adopt the good features of the other. The Loan associations, for instance, should issue much fuller and more complete reports, and those quarterly. The attendance of directors at meetings should be noted, and fines imposed for absence. The Massachusetts plan of paying the premiums monthly, with the interest, is preferred to the Philadelphia plan of deducting the premium from the loan, as being juster and less likely to create ill-feeling. Fixed tables of payments are better than the uncertain bidding at an auction. Similarly the savings banks might adopt with advantage many of the features of their rivals. But in any case the Co-operative banks have a great future before them.

" In conclusion, I would observe that while the National banks of the United States
" have undoubtedly, through recent legislation, extended and deepened their sphere of
" operations, so as to reach the small depositor, especially in the minor towns of the out-
" lying districts, still they cannot be said to replace people's banks for the working man,
" who must in almost all cases rely on the Savings and Co-operative banks, whose operations
" is attempted to be set forth in this report."

MONTS DE PIETE.

Originally based upon charitable foudations, and, as a rule, promoted directly by the Church, these ancient and now public institutions deserve notice, not merely under their generally known form of *quasi* pawn-broking establishments, but as assisting the poor in several ways, and, especially under the names of Monti frumentarii in Italy or Positos in Spain, as providing a species of agricultural credit under the form of " takkavi "; they are interesting as being the primitive form of banks for the poor, and as showing the need—and one method of meeting that need—in all countries of small cultivators, for supplying peasants with aid, chiefly in grain, either for seed or for food during the growth of a crop.

Among the points of interest it should be noticed (1) that they are generally managed by the communes and municipalities or other local public bodies; (2) that, whether public or private, they are always under State control; (3) that their management is gratuitous—or nearly so—except, of course, as regards the paid staff; (4) that profits are transferred to the capital of the Mont so as to cheapen credit; (5) that surplus profits are devoted to works of public local utility; (6) that it is common to establish, alongside the Mont, a Savings bank (penny or otherwise) for the receipt of very small sums, so as to facilitate the redemption of the pledges while promoting thrift generally; (7) that some Monts which have a special fun for the purpose, usually derived from profits, lend very small sums—up to 4*s*.—without interest (*cf*. the ' Loans on honour ' of the Italian Popular banks), in particular cases of distress, such as those mentioned by Hall (Ireland) where poor persons may have to pay 2*d*. *per day* for a loan of 2*s*. 6*d*.

The history of peasant cultivation everywhere discloses habitual and necessary borrowing even for subsistence or for the cultivation of the next crop; so many are the vicissitudes, so small the outturn in the poorer class of soils, so unable either the land, its cultivator or its crops to resist seasonal or other stress, that the money-lender is invariably the complement of the peasant-proprietor, unless, as in the case of tenant cultivators, especially under the system of *mètayage*, the landlord fills the rôle. European rural history teaches this, and in India it was the same; while, however, *takkavi*, as advances for seed, was common to both continents, it was granted in Europe by communal institutions, but in India by the ordinary Revenue Department direct from the State treasuries. In India the practice has consequently been discouraged and suppressed, so that the money-lender is the sole source of a necessary credit; in Europe, the old institutions are still working, but are being supplanted by newer and co-operative or else joint-stock forms. Even in India, the once suppressed takkāvi is re-appearing under an anglicized form in the Agriculturists' Loans Act. But it is not only as institutions for advancing grain, but as pawn-broking establishments that the Monti require notice. One of the most remarkable features of Indian life is its custom of storing wealth in the form of jewellery, of which the money value, in infructuous use, is incalculable. When money is required, these jewels are pledged; in ordinary years, the money-lender gives a fair advance, though the terms are not low; these pledges are frequently unredeemed, and the pledgor loses very considerably on the sale. But the moment there is a general pinch, jewels come freely for sale into the market; it is the capitalist's opportunity, and, as in the great famine, jewels even of considerable value are sold for the veriest trifle; a very distressing feature of the famine of 1877-78 was the fearful loss on this form of accumulated wealth which was exported from the distressed districts by tons. Properly regulated and financed establishments would have doubled the value of these jewels to their owners. The question is whether, in either of these capacities, Indian institutions can be developed. The pawn-broking side of these institutions will be mentioned below, *sub*. *voce* ' France,' where the laws and regulations are very complete. The following remarks on the Italian Monti are chiefly taken from the learned work of M. Durand and a pamphlet by M. Claudio Jannet.

Italy.—The Italian institutions spring from the fifteenth century when they were started, usually by the Church, for the assistance of the poor, and were avowedly intended to combat usury which, in the hands of Jews and Christians alike, ravaged the country. These funds were at first charitable grants; they were subsequently financed by the issue of bonds and by the receipt of deposits and savings. They thus developed into regular banks for deposits, savings and loans, as well as warehouses for pledged goods, and spread with great rapidity.

But it is clear that this did not help the mass of agriculturists who had no money to deposit and whose crops could not be delivered in pledge; hence, in the seventeenth century, institutions were started, and rapidly spread, in the South of Italy, called Monti frumentarii or granatici, for the purpose of lending seed grain to the peasants in ordinary years, and in years of famine or scarcity, grain for food also. Repayment was in kind at the rate of a heaped for a struck measure: nothing could be more simple or readily comprehensible by the peasant, the value to whom may be gauged by the results in India where the money-lender is the only resource. Many of these Monti having surplus grain, gradually accumulated a stock of cash, and lent this out to the peasants in small sums by special branches, called ' Monti pecuniarii '; such loans are only granted for buying cattle or implements. The work of these Monti singularly recalls the objects of the Agriculturists' Loans Act (India) of 1884; the latter indicates certain agricultural needs among small farmers; the Monti have supplied that need in Italy; in India, the State is assumed to be the necessary source.

In 1878, there were 1,965 of these Monti frumentarii, with a capital of £591,000 or about £300 each. As each of these serves generally only one commune, they should be of immense service in their particular capacity. And as these are chiefly developed in the South of Italy, and as in all Italy there are only 8,256 communes, it follows that these institutions serve a very large proportion of South Italian villages, while their impersonal and inalienable character derived from their ancient foundation, should render them thoroughly free from selfish aims. The management is with the Communal or Municipal Council.

Unfortunately they seem to have been isolated and neglected; great complaints are made of their mismanagement, wasted and misappropriated funds; managers borrowed the funds to lend them out at usurious rates; others, with political aims, lent the funds and neglected to recover them, and it is stated that at this day, the best part of their funds is irrecoverable. These evils are of modern date; they used to work well, but—as elsewhere—local and communal administration has greatly suffered in the transition from the *quasi*-patriarchal or truly communal stage to modern administrative methods. The tale of mismanagement recalls the history of many an ancient Indian religious or charitable foundation. What has been wanted in Italy is not laws but a strong and capable supervision; the Italian law makes all municipal councillors jointly and completely responsible for malversation or fraud by the administration and these Monti are administered by the municipalities (communes); the laws are there, but none to work them. Hence it has been proposed—and the money-lenders are said joyfully to support the proposals—to suppress the Monti foundations, and transform them into establishments of agricultural credit; this is equivalent to suppressing institutions that have operated successfully, with a view to start institutions hitherto unsuccessful except when of private foundation. It would seem preferable to regulate and develop rather than transform these institutions. The new law on agricultural credit (1887-88, see another Appendix) authorizes (section 39) this transformation, if desired.

It should be noted that these Monti frumentarii enjoy the privilege granted by all European Civil Codes to the lender of seed grain, viz., a priority in its claims for its dues; this privilege takes rank even before that of the landlord and exists *de plein droit*, requiring no formalities or documents.

Some of the Monti have otherwise developed; the Bank of Naples, one of the most flourishing and useful institutions in the world, is formed of a consolidation of seven Monti, and, as such, possesses a foundation capital (endowment) of £2,500,000; there being no shareholders, all profits are devoted to public improvements and the bank is able to allot very large sums to agricultural credit. It is also in business relations with a large number of Popular banks in Southern Italy which it supplies with funds at market rates; if certain regulations are complied with, it appoints them its agents or correspondents, and grants them loans or discounts their paper at 1 per cent. below the ordinary rates; in 1885, 213 were enjoying this privilege, and had effected 104,990 operations for a total of £6,044,960. It has of late set aside £2,000,000 for the benefit of agriculture (Levi).

The Bank of Sicily has a similar origin, and has made a very special attempt to develop popular credit. It proposed to create agencies which would be local associations; these would provide four-fifths of the required capital, and the bank one-fifth; their paper would also be readily and cheaply discounted. This excellent plan fell through simply from a difficulty due to the Italian law regulating commercial societies. It has now been proposed to take the Popular banks and Savings banks as correspondents, allowing them, as such, discount at 1 per cent. below ordinary rates, with the privilege of collecting the bank's dues and holding them at favourable rates of interest; it would also serve as a Central bank and clearing house for the affiliated banks.

The result of these favours has been a rapid development of Popular banks in Southern Italy, and it is probable that in India, the development of Popular banks may attend upon similar action.

SPAIN.—The " Positos " of this country are worth special notice, not only from their history and actual value, but with regard to the suggestion of members of the Famine Commission of 1878 that granaries should be established in which to store grain against famine years.

These institutions, called ' Celleiros publicos ' in Portugal, were originally started in the fifteenth century simply as granaries in which to store grain for the supply of the people in the then frequent famines or local scarcities due not merely to seasonal failures, but to other disasters and to the want of communications. Many were established by Government, but most by private beneficence; these granaries not merely stored the surplus grain of good years, and relieved distress in bad ones, but enabled the local authorities to prevent an undue fall or rise in prices; by the middle of the sixteenth century there were 12,000 of these local granaries. Obviously it was necessary to change the grain at frequent intervals to prevent spoiling, and this led, if indeed it was not part of the original idea, to the plan of lending out grain at seed time to be returned with an addition at harvest: sometimes the grain was sold and loans given in cash, and this gradually became customary. By 1792 the number had fallen to 9,604 with a declared capital in grain and money of £4,800,000. Then followed wars and disturbances, accompanied amongst other difficulties by a forced contribution of one-fifth of their capital to Government, and a forced condonation of vast sums owed to the Positos by their debtors. In 1836 and 1839 there were still further levies and demands, on national grounds, for even the whole property of the Positos, demands which must have ruined any but well-established and necessary institutions. In fact, by 1866 only 3,400 survived with a capital of about 1½ millions sterling; but even then they were lending to 150,000 cultivators not less than 600,000 fanegas * of grain and £50,000 in cash; if they used all their capital, the average loan would be about £10. By this time they had long been communal institutions, managed by local committees locally elected, and lending grain for seed and maintenance,

* The fanèga is stated by Mulhall as equal to 4 bushels; in the ' Statesman's Year Book ' as 1½ imperial bushels; in a French writer as 55½ litres which equals 12·2 imperial gallons.

with interest, in kind, at about 4½ per cent. for the crop period, or small cash loans at about ½ per cent. per month. It was considered that they might form the basis of a sound system of agricultural credit, in the establishment of which Government had long, but vainly occupied itself: in 1840 Government attempted to turn the Positos into agricultural banks, but without success, and for many years there have been reformers with similar ideas, based chiefly on the undoubted abuses that found their way into the management. Hitherto the proposals have been without effect; it appears that the institutions fill an important and almost essencial customary rôle in assisting the poorer cultivators, and are agreeable to the needs, ideas, status and methods of the small folk. That there have been abuses cannot be doubted; the Spanish local administration is not strong, the country has been subject to all kinds of disorders, and so little were the Positos under supervision that in 1849 the minister in sending circular questions to the Prefects (Collectors), embodied therein a question as to whether any Positos existed in the several districts, a question which elicited the figures mentioned above for 1866. And as soon as the Positos were placed under regulation by the law of 1877, they took an immediate development, insomuch that within ten years their capital had increased by about a million sterling to £2,640,000 of which £880,000 was in cash, £80,000 in immovables (buildings), and the remainder in grain. They are now doing good work in grain loans for seed and maintenance, repayable either in grain or cash with 4½ per cent. interest for the period lent, and cash loans at 0.5 per cent. per month By a regulation in 1792, at least one-third of the grain in store was to be lent for seed, the remainder being available for loans for maintenance; it is not known whether any such proportion is still observed.

In 1877 a short law was passed for the management of these institutions, supplemented as usual in Europe, by lengthy administrative rules; the following is an abstract of the more important points.

In each district a standing committee is appointed; this is composed of the Prefect (Gobernador Civil, Collector) the District Agricultural Officer, two members of the District Council, two members of the District Chamber of Agriculture, Commerce and Industry, and two members residing in the district and elected by the 50 largest landholders or cattle-breeders of the district; all are subject to the appointment or confirmation of the Minister of the Interior. The first duty of the committee is to examine each Posito in the district, verify its funds, examine its accounts, especially its statement of capital, its loan register, its statement of arrears and defaults, etc.: as a first guide, the committee is supplied with a detailed statement from the Minister's office. If any malversation is discovered, the committee are bound at once to proceed for its recovery, for which purpose it is granted all the powers possessed by public officers for the recovery of arrears of revenue. If any Posito is found to have disappeared or to have changed its construction (*e.g.*, into an agricultural bank), a full report must be sent through the Prefect to the Minister for final orders. As far as possible, the Positos are to retain the existing form, granting loans in grain and in cash; the committee may on good grounds authorize the conversion of funds in cash into funds in grain, and *vice versâ*, with the consent of the Minister in important cases. The committee is to sell all immovable property of the Positos except their granaries, and storehouses, the proceeds to be credited to the respective Positos; if the Posito lends in grain, the sale-proceeds are to be spent in buying grain. It will be noticed that the Government was in 1877 scrupulously anxious to keep these institutions in their original form of seed and grain lenders, a strong proof of their usefulness and of their manageability even in that form.

The Positos are to be managed by the communal councils, to whom one-sixth of the interest is allowed to cover the cost of administration. The members of the council are individually and collectively responsible for the loans granted. Special accounts are to be maintained by the council and submitted to the standing committee for audit. The committee nominates and the Prefect appoints special inspectors for the audit and examination of the accounts and operations of the Positos, and it is laid down that the duty of inspection rests with the Prefect and with the committee. Loans are granted in grain, repayable in grain or money, or in money repayable in cash only with interest at 0.5 per cent. The communal councils may, on the report of the standing committee, grant delays for repayment up to four years and the Prefect up to six. The insolvency of a defaulter may be declared (by the Prefect) as regards his debt to the Posito, but it is provided that such declaration of insolvency shall bear the entry "temporary and without prejudice should the defaulter recover his position." Final remissions of debts due to the Positos can be granted only by the Minister of the Interior, who must moreover consult the Council of State, and for cases where the individual debt exceeds £100, a special decree must be passed by the Chambers.

The Minister is authorized to issue the necessary rules of business and did so in 1878. Communes may establish new Positos on proof of the need for them, the scope of their undertakings, the endowment to be provided, the method of management, etc.: their foundation is to be approved by the standing committee after due enquiry, and sanctioned by the Prefect. The one-sixth of the interest on the loans, as allowed by the law for the administration, is to be provided equally as honoraria to the communal sub-committee, and for the payment of staff and contingent expenses.

The standing committee must meet for business once a week at least in the Prefect's office; every member must attend unless upon excuse in writing sent to the Prefect; three

consecutive absences render the member liable to dismissal. It will be noticed that the services of the members are wholly gratuitous, another instance of this almost universal feature in European local administration, even when continuous, delicate, and difficult executive duties are required.

The rules provide for the proper upkeep of the books and accounts, and for an annual report on the position and operations of each Posito.

The rules for the communal administration provide for loans in grain at the rate of $4\frac{1}{2}$ per cent. for the cultivation period: arrears to accumulate at compound interest until the next harvest; the same rules apply to cash loans, which are not granted for more than one year. Should a debtor be in arrear, the commune must use every executive method, and this appears to include the debtor's sureties and any members of the communal council who may have admitted the loan without surety or have failed to proceed for the debt in due time. Failing all these methods, the papers must be sent with a report to the Prefect who, after hearing the Standing Committee—probably by a report, or at the weekly meeting in his office—is authorized to declare the insolvency of the defaulter as regards his debt to the Posito; with, however, the proviso noticed above, viz., that the insolvency is temporary, and that the amount may be collected should the defaulter recover means to pay; this declaration keeps the debt alive and maintains its priority over all subsequently contracted debts. For the purpose of final remissions the Standing Committee draws up a register of debts with complete notes against each case and sends them to the Prefect, who transmits them with his opinon to the Minister for final orders.

Applications for time must be accompanied by due declarations from the sureties, and the Communal Council must be satisfied of the sufficiency of the guarantees It will be seen that though no rules are laid down as to the security for loans, it is contemplated by this and a preceding provision that there should always be collateral security, usually personal, for a loan. All grants of time must be notified to the standing committee recommendations for more than four years are sent to the Prefect who has absolute power to grant or withhold his sanction.

Rules are also laid down for the work of the special Inspectors of Positos, but need no remark except that their powers of audit and verification are complete. A small establishment is sanctioned for the standing committee with the proviso that all the employes are to be ex-employes of the ordinary administration. Funds for this purpose are to be obtained by a levy from the Positos of 1 penny per fanega (12.2 gallons) and 0.25 per cent. on cash.

The Positos are thus seen to be very ancient foundations which arose out of the necessities of the country and at once adapted themselves to the further necessities of the cultivators in their periodical need for seed and consumption. The urgency of the needs which they met, and the satisfactory way in which they met them is shown by their extraordinary persistency of life, in spite of incessant wars, forced contributions, disorders, administrative neglect and consequent malversations and abuses. In later times they have had to meet the attacks of reformers who would transform them into agricultural banks, and do away with their specific character. The provisions of the above law show that, up to 1877, Government notwithstanding its continued efforts to found organized agricultural credit, was willing that the Positos should continue and increase upon their ancient footing, and a Central Congress of agriculturists in 1882 pronounced to the same effect. M. Durand, however, states that in 1889 a new commission was to inquire into the subject, but that no report had been published.

Given a country of very small farmers, poor in money, restricted in their markets, exposed to seasonal difficulties, with an agriculture still in many respects primitive, a society almost self-contained with but moderate external trade, it would seem that institutions, such as the Positos, would peculiarly meet the needs of the cultivators. In times of surplus crops the excess would partly go to the granaries, to be again doled out in times of scarcity; in ordinary years they would issue these stores as loans for seed and maintenance; in times of seasonal stress they might provide some help in distributing grain to the poor, but even then ther most beneficient rôle would be the issue, towards the close of the stress, of stocks of corn for seed and for the maintenance of the cultivator during the crop period, leaving the actual famine period to be dealt with by ordinary trade and keeping the stock in hand simply as a reserve. If there is one form of usury which, though partly defensible in figures, is, in fact, ruinous to the ryot, it is the grain loans of the private lender; when grain varies in village price as 10 and 8 or even 10 and 6 at seed and harvest times respectively, it is clear that the ryot suffers terribly in his grain assets, in his abilitay to store a surplus, who has to pay back 20 for every 12 or even every 16 that he has borrowed six months previously. It is not so much that the interest, calculated in money, is high; is is that so much of his crop is lost to him that he cannot reserve an amount sufficient even for the next twelve months, let alone a further period in case of crop failure. Hence the local institutions which should lend grain repayable in grain with, say, $6\frac{1}{4}$ per cent. addition and should then store that grain not for exportation but for local loans a few months later, would be of immense benefit, would earn sufficient to provide against losses, and would bridle the private lender who lends in order to obtain a large quantity of exportable produce. They could be worked almost for nothing, grain pits being substituted for granaries and the village panchayat for the Communal Council.

FRANCE.*—The Monts de Piete of France are simply public pawn-broking establishments. At the end of the last century, interest, even on pledge of valuables, was incredibly

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This paragraph is based chiefly upon the article in the 'New Dictionary of Political Economy.' (Paris, 1889-92)

high; 5 or 6 per cent. *per month* was considered moderate, and the Paris Mont de Piete startled the public by asking only 3 per cent. per month; this was gradually reduced to 12 per cent. per annum. Napoleon, while preferring in general, liberty in commercial transactions, said that in certain cases, public authority ought to intervene to protect weakness against oppression, need against greed, and misery against robbery. The private pawnbroking intitutions (lombards), which, in default of personal, and even real credit, were the chief resort of the needy, were mere dense of usury; their operations were "without regulation or control," and their demands are characterized as "ferocious" and "acts of brigandage." Napoleon therefore adopted the heroic remedy of absolute suppression and gave the monopoly to Monts de Piete, which he made public institutions regulated as Benefit Societies. The present law is that of 24th June 1851 (*see* another appendix); they are everywhere public establishments, instituted by the State, with the consent of the local Municipal Council. The administration is given to a Board, presided over by the Mayor of the Commune (Municipal Chairman or Village Head); the members of the Board are appointed by the Prefect and their services are given gratuitously.* The actual agent or staff, of course, receive payment. Within certain limits, the law permits each institution to formulate its own system of management. It will be seen that both in France and Italy, the result of *lausser faire*, was grave abuse and mismanagement.

BELGIUM.—In another appendix will be found an extract from the Royal Decree of 1826 which placed them on their present footing. It will be seen that whether public or private, they are placed under State control.

CHAPTER VII.—SAVINGS BANKS.†

Savings banks are distinguished from other deposit banks as follows;—The object of ordinary banks is credit, and they merely attract deposits, *i.e.*, savings, in order to utilize them in business; in Savings banks, the encouragement of thrift, *i.e.*, the gradual accumulation of petty savings or of a provident fund is the object aimed at, and the banks merely enter into the business of credit in order to provide a fruitful investment for the accumulated savings. In ordinary banks, dividends are the objects of business, in Savings banks, a moral as well as a material benefit; inordinary banks it is the shareholders, in Savings banks the depositors, whose benefit is mainly sought. Considered from another point of view, ordinary banks usually receive money in lump and repay it to depositors on comparatively small drafts or cheques, while Savings banks receive money in every petty driblets and usually repay it to depositors in much larger sums. The principles which should characterize true Savings banks of the best class may be stated as follows: (1) absolute proximity to depositors; (2) readiness to receive deposits of the very smallest class, which for ordinary Savings banks, exclusive of Penny banks, may be taken as the smallest silver coin of the currency of the country; (3) a moderate maximum for deposits at one time, or in one year, and for the total receivable from one depositor; (4) payment of moderate fixed interest on all such deposits beginning with the lowest unit on which interest is readily available (*e.g.*, 1 rupee, on which interest at $6\frac{1}{4}$ per cent. per annum is exactly 1 pie per month); (5) readiness and ability to repay small withdrawals on demand, and larger withdrawals on notice; (6) absolute security of the investments and total absence of all speculative employment of the funds, together with complete liquidity for a certain amount; (7) a sufficient guarantee fund, whether arising from the liability of the promoters, trustees or any public body, or from a share capital, or from reserves; (8) gratuitousness of the direction, and where there is a share capital, a dividend, if any, with only a moderate and fixed maximum; (9) employment of the funds in such manner as to produce the greatest possible industrial benefit to the country if possible "*sur place.*"

It will be seen from these postulates that a Savings bank proper is not a popular bank, that is, a place of deposit where credit is the *raison d'etre* of its existence; it grants credit because it must invest its funds, but it is an adjunct to credit rather than a true source of credit.

Moreover, in their more character of banks for savings, they are of minor use in a purely agricultural country; they are intended to provide facilities for the receipt of frequent petty sums, whereas the agriculturist requires merely means for temporarily

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* One of the most striking features in European life is the "gratuitous" character of many of the local administrations; the development of local life depends largely upon the willingness and devotion with which local men of influence will give their time gratuitously. The gratuitous administration of the Popular banks is only one specimen of this custom; another is the gratuitous administration, in France, of the Commercial Courts.

† It is not intended to describe in detail the Savings banks systems of Europe, but only so much as is germane to the subject of Real and Agricultural credit. But the study of the various systems and of examples of their working is of the highest interest and importance, especially to a country where they are yet to be established, and which, so far, seems to be guided only by the English ideas of postal Savings banks with official working and the aspiration of all savings to the State treasury, a method radically defective unless those funds are replaced in productive circulation, if possible "sur place." Savings banks generally precede all co-operative effort, all organized attempts at self-help, and it is one of the highest functions of modern statesmanship to promote the ideas and institutions of systematic thrift, "the daughter of foresight, sister of temperance (self-restraint) and mother of independence" (Cicero). Nevertheless, Savings banks which only promote thrift fail of half their value; it is in the fructification of their accumulated savings, in the fertilization, by their means, of industries that thirst for capital, that the second half of their value, of their duty, lies.

depositing the proceeds of his harvests pending disposal in his real Savings bank, viz., his farm. The bank that the agriculturist primarily requires is a deposit and lending bank rather than a Savings bank. Nevertheless, in Europe and in the United States, so large a part is played by Savings banks proper in providing or assisting rural credit by their investments, chiefly in mortgages and in loans to popular banks and credit societies, that a brief description of their functions will be useful.

They may be divided into public and prive according to their origin and working, and again into banks of restricted and banks of free employ of their funds. In England and in France, Savings banks are both public and private, but the use of their funds is strictly limited to investments with Government; in Italy, Austria, etc., they are both public (postal chiefly) and private or quasipublic, but the private institutions have the free employment of their funds; in Belgium and in Russia, the receipts of the Savings banks are handed over to a central institution which employs them under State guarantee in various ways limited by law; in Germany they are chiefly public, viz., Communal, Taluk, and District banks, but have the freest use of their funds; in the United States they are private and, within certain limits, free in the disposal of their funds; in these latter two countries, there are no State (postal) Savings banks. Obviously, it is only in those States which grant to Savings banks the free use of their funds that these institutions can directly benefit agriculture. In England and in France, the whole savings of the country are drawn into the Government treasury, which holds them as a floating loan repayable on demand, and uses them simply for State purposes, instead of allowing them to fructify in the localities where they are produced; in France the debt of the State to the Savings banks on 1st January 1891 was nearly £140,000,000, held in above 7,000,000 accounts. In noting, therefore, the influence of Savings banks on agricultural credit, England and France may be left out of account. An account will, however, be given of the administration of the private Savings banks in these two countries, since their methods and the part taken by Government in supervision, afford important practical lessons.

The European Savings banks assist credit in one of the following ways:—(1) they may establish popular banks; (2) they may provide funds for such banks or other intermediaries by opening accounts current with them, granting them loans, etc.; (3) they may use their funds directly in mortgages or other classes of loans; (4) they may serve simply as branches of popular banks to receive savings in the intervals of payment of instalments.

From the following description all popular banks or loan societies which, as in Germany, Austria and Italy play so large a part as Savings banks, are excluded unless expressly mentioned, as they have been described at length elsewhere

PRUSSIA.—There has been no Imperial legislation for Savings banks in Germany, so that each State has its own regulations, none of them modern. That of Prussia is fairly complete, and will be taken as an example of the German management of institutions for thrift.

The regime of the Savings banks in this country is peculiar; there are no postal Savings banks, but most have been established by the local authorities, whether Provincial, District, Municipal or Communal; the law regulating them is that of 12th December 1838, which has never been added to, though interpreted on several occasions by authority. There have been several attempts to organize a postal Savings bank, but these have been defeted, chiefly on the ground that their institution would be prejudicial to the popular banks and ordinary Savings banks, which are doing such splendid work, and would attract savings to the State treasury, whereas they are now employed "*in situ*." There are some private Savings banks, but these are few and of limited operation.

The Prussian Savings banks are mainly public institutions guaranteed and managed entirely by the local authorities, communes, taluks, or districts; the Provincial Government authorizes their establishment, and supervises their operations as municipal institutions. They are, however, largely autonomous, and in the disposal of their funds, subject, of course to the above supervision, they are free.

The following statistics * show at once the great development of these institutions as Savings banks and as credit banks in 1890-91. There were in all 3,540 offices, of which 1,393 were the Savings banks. 526 were branch offices, and 1,621 were collecting offices; there was one receiving office of one kind or other for every 8,462 inhabitants and 38 square miles. The 1,393 banks were: urban 693, entirely rural 159, taluk (Kreis) 344, district 6, and private or co-operative 291. The 344 taluk banks had 1,819 of the branches and collecting offices. This is, however, a somewhat small number for 54 447 communes including 1,263 towns.

There were at the end of that year 5,552,662 deposit accounts, or 1 for every 5½ inhabitants: in twenty years from 1870 they had increased from 1,391,970, or 1 for every 18 inhabitants. The accounts below £3 were 29 per cent. of the total number and those between £3 and £7-10-0 16½ per cent; thence nearly half of the accounts were below £7-10-0. The deposits reached £164,078,550, or treble the £55,603,870 of 1875; this averages £5-9-0 per head of the population.

The modes of investing this enormous sum are very instructive and suggestive. They are embodied in the following table: the investments include deposits, capital and reserve:—

* From the 'Zeitschrift des Konigl. Preussischen Statistichen Bureau' in the 'Bollettino' for January 1893 of the Italian Minister for Agriculture, &c.

Nature of the Bank.		Mortgages.		Bonds		Bills of exchange.	Pledge of moveables.	Loans to public institutions and corporations.	In securities.	Total.
		Urban.	Rural.	Without sureties.	With Sureties.					
Urban	£	28·182	14·782	0·1	1·646	0·703	1·255	6·253	29·591	82·513
	p.c.	34·15	17·92	0·12	2·0	0·85	1·52	7 58	35·86	100·
Rural	£	1·177	4·143	0·047	0 745	0·037	0·129	0·522	1·544	8·314
	p.c.	14·15	49·47	0·56	8·96	0·45	1 56	6·28	18·57	100·
Talnk	£	9·907	19·332	0·19	2·135	0·619	0·586	3·987	14·259	50·929
	p.c.	19·45	37·95	0·38	4·19	1 22	1·15	7·66	28·0	100·
District	£	1·416	1·122	..	0·111	0·075	0.181	0·299	2·576	5 782
	p.c.	24·50	19·42	..	1·92	1 30	3 14	5·17	44·55	100·
Private or Mutual.	£	7·192	5·404	0·054	2·186	1·048	0·689	0·692	5·604	22·869
	p.c.	30·83	23·17	0·23	9·37	4·49	2·96	2·97	24 02	100·
Total ..	£	47·875	44·754	0·393	6·824	2·482	2·842	11·663	53·575	170·408
	p.c.	28·02	26·19	0·23	3·99	1·45	1·66	6 83	31·36	100·

N.B.—The pounds sterling column represents millions.

It will be noticed that 54.21 per cent. of the deposits, or £92,629,000, were invested in mortgages, of which nearly half, £44,754,000, were solely rural; even the urban banks invested £14,782,000 in rural mortgages, but all Savings banks are called urban if in a town, and this word includes what are merely large villages. No less than £6,824,000 were out on bonds, the bulk being held by rural and private banks: as these are usually of short term, the figures do not show the whole year's work. Similarly the £2,482,000 in bills of exchange represents merely the portfolio at the end of the year, and as bills are not only of short term (three months), but are incessantly coming in and going out on rediscount, the transactions for the year were probably far greater. Hence the personal credit work of Savings banks is not fully represented in the table. Chattel credit (pawnbroking) is represented by £2,842,000, and this is open to the same remarks as bills of exchange. The large sum of £11,663,000 was lent to public bodies (communes), corporations, institution, etc., while no less than £53,575,000 were invested in securties which must, by law, be first class.

The modes of investment have, except as regards mortgages, sensibly altered since 1871:—

Year.	Mortgages.	Securities.	Other investments.	Remarks.
1871	53·83	20·52	26·46	The figures represent the percentage of deposits invested in the several classes.
1880	55·21	24·33	19·84	
1890	54·21	31·35	14·43	

While mortgage investments have remained steady, it has evidently been found advisable to limit the investments in personal and chattel loans, and to increase the proportion invested in securities. Unfortunately the average size of the mortage and other loans is not stated, so that it cannot be said whether the loans get down to the small peasant: it is said by some writers (Note sur le credit agricole mobilier, 1885) that the small peasants are not much benefited, since the Savings banks are not organized for the minute and numerous enquiries necessary for a mass of petty loans; moreover loans can only be granted at 1,919 offices, and if the 593 urban banks are excluded, the 1,326 other banks could hardly, even if organized for credit, serve the requirements of 53,177 rural communes, each such bank, moreover, having to serve 22,500 people and an area of 107 supare miles. Though figures to show more precise details of distribution are not available for this study for the whole of Prussia, they have been obtained for some of the provinces and smaller States. Dr. Roscher writes, in 1885, that nearly 72 per cent. of the deposits in Savings banks in Saxony were employed in mortgages; that the average mortgage loan was from £100 to £150 (in Brandenburg (Prussia), the average was £58), while no less than from 31 to 44 per cent of mortgages outside of the large towns were below £50, about 15 per cent. being below £25. Mortgages such as these cannot even be looked at by larger banks. The interest too was moderate, viz., $4\frac{2}{3}$ per cent. and no less than 1 in every 32 of the people of Saxony had a mortgage with these banks. The reason given is that as the Savings banks are local they can constantly survey the position of their debtors, and the condition of the property pledged, while the larger institutions, operating over a wide area, are unable to do so, hence the possibility of small and cheap loans on easy conditions of repayment.

Moreover, as the banks are Savings banks, they accept at *any* time small sums to be credited to the debtor; these accumulate at interest and are then credited to the loan at the regular instalment periods. Very small loans are repayable by the pettiest sums, *e.g.*, at the rate of 1 penny per thaler (3*s*) per week. He adds that similar advantages are obtained from a Savings bank in the matter of personal credit.

The Nassau Savings bank, which is, however, a State institution, had on its books on 31st December 1892, deposits of £1,567,879, of which above £900,000 or 57 per cent. were on mortgage and £134,000 on bonds with sureties (Burgschaft). The mortgages were 1,978 in number or nearly £450 on an average, but the small agencies show loans averaging as low as £16-5-0 that of Rennerod having 148 for £2,401. Similarly the personal loans with sureties were 1,194, of which 584 were below £6-10-0, and 1,079 below £15.

The foundation and administration of these Savings banks under the Prussian law of 1838 is as follows. The banks (public) are those of the commune, taluk * (circle, Kreis) and district (Provinzial).

The communal banks are started by the village corporation and on their guarantee; a committee from the Communal councils manages the bank and appoints the staff, but, though working independently, is under the general supervision of the Communal administration; the funds, documents, etc., of the bank are entirely separate from those of the commune.

When a commune decides to start a bank, its intention must be communicated to the authorities; the object, methods and articles of the bank must be submitted to Government with the proposal which, if it refers to a commune only, is sent to the president of the province (Collector) for his orders; the points for consideration are the safety of the investments, the propriety of the rules, and the probability that the needs of the poor, whether for saving or for credit, will be met. Only after authorization can the bank begin work, and its administration is then subject to supervision by the same authorities, who are bound to pay special attention to these institutions, satisfy themselves of their regularity and business methods, make ordinary and special inspections of their accounts and affairs, and repress all abuses. An annual detailed statement of the bank's affairs must be made to the Provincial president in a form prescribed by the Minister for the Home department, and must also be published in the local gazette; the president forwards the returns to the minister. Inspections are conducted by officials deputed for the purpose by the president, but it is said that this power has not often been exercised, probably from want of attention, for in 1875 the minister took occasion to object to the carelessness and inaccuracy of the inspections, and in 1886 the attention of presidents was again called to the subject of the Communal Savings banks.

The banks are left very free as regards internal organization. It has been general to begin with an unpaid staff, the managers undertaking this honourable duty gratuitously; as affairs develop in quantity and complexity a paid staff is introduced; usually a single accountant at first, who is required to give security for his conduct. Even in the larger banks, such as those of the taluk, the directorate always performs its duties gratuitously, as do the trustees and managers of the English Trustee Savings banks.

The fact that the communal council (Municipality) is, in the last resort, liable for the bank's obligations, is an important guarantee for its stability and largely induces public confidence. But in order to avoid any risk to public—communal—funds, it is obligatory to establish from the beginning other guarantees, principally that of a material reserve, which is generally fixed at a minimum of 10 per cent. of the liabilities, *i.e.*, of the deposits; in 1882 the reserve was below £6,000,000; in 1890 it was above £8,000,000 which however, does not amount to anything like 10 per cent. of the deposits. Its reserve is taken from profits, which in 1882, amounted to about £1,000,000. When the reserve is full, the Provincial President may authorize the banks to use any surplus in works of public utility in the commune (paving, lighting, etc.); in 1882 more than £307,000 were thus spent, and from 1838 to 1882 about £3,225,000.

The law lays down no maximum or minimum for deposits. The minimum is, however, to be placed as low as possible and interest is only allowed upon the deposit reaching a certain sum, usually one mark (shilling) at least. The minimum in rural banks varies generally from 3 to 5 shillings, the lower rates being the more common; some private banks, probably children's or school banks as in Switzerland, are even said to accept a single pfennig (1 pie). The maximum deposits are, in rural banks, usually from £15 to £300, but the Provincial Presidents have power to allow or order a change in the maximum, whenever it would be to the public advantage. It is common also for the bank to invest any surplus on behalf of the depositor, in some good security or debenture. Some banks repay any surplus; others allow the surplus to remain but give no interest thereon; some stop interest upon the whole sum. It is usual also to fix a maximum for each payment into the bank, and maximum to be deposited in a year.

Interest on deposits is various, but does not seem to exceed 4½ per cent. in rural communal banks, though somewhat higher in the taluk and district banks. It has been proposed to allow as in Italy slightly higher interest to small savings, so as to encourage thrift among the poor, but it is not a rule of the law. It is ordered, however, by law that the rate of interest shall be printed on each pass-book, together with a table showing, for various sums, the amount which would be reached in ten years at compound interest.

The investment of the funds is left to the discretion of the banks, the only proviso being that the investment must be safe. The investments recommended are (1) loans on

* The word "taluk" is used to translate "Kreis" or "arrondissement," partly because of the nature of its administration, partly because of its size, from 20,000 to 70,000 and occasionally more inhabitants.

first mortgage, (2) investments in public funds (3) loans on the deposit of Government paper, (4) loans to local Monts de Piete, (5) any safe investments, the word "safe" being interpreted to mean such as are admissible for the investment of trust funds. The discount of bills of exchange is discouraged but seems to be used. Loans on personal security are admissible, the bonds ranging in term from three months to ten years; only a given portion may be invested in this manner. Mortgages are by far the most used, 52 to 55 per cent. of the funds being thus invested: loans are granted up to two-thirds of the value, calculated in various ways. It is usual to allow only a proportion of from 25 to 66 per cent. of the funds to be laid out in mortgages; some banks refuse such loans unless repayable by annuities. Loans to public bodies, such as communes, District Boards, etc., are allowable even when made to the commune which manages the banks; about 4 per cent. of the funds are thus invested.

Loans upon pledge are common and are of one of the most ancient forms of employing the funds of Savings banks which are frequently found in connection with Monts de Piete, and are sometimes started simply to supply a Mont with funds; sometimes they merely lend part of their funds to a Mont, sometimes they lend money direct as a Mont. It is considered that this branch of their operations is very useful, if kept under the supervision of the Government as an important item in the customary economy of the country. About 6 per cent. of the funds seems to be laid out in this way. It appears likely that one great method of developing popular credit is to co-ordinate ordinary Savings banks with institutions of popular credit, not merely with Monts de Piete, but with land and agricultural credit banks, to which they would supply funds on loan. Savings banks are not organized ordinarily for credit inquiries and transactions; their business is the encouragement of thrift by an organization for the receipt of petty savings, and a secure and easy investment for such funds. According to Prussian common law, the pass-books of Savings banks are considered as documents payable to bearer but by the Regulation a bank is entitled but not bound to call upon the bearer to prove his title. It seems, however, that the Articles can decide whether pass-books shall be personal or to bearer; it also seems customary in practice to pay the bearer even of personal pass-books. It has been suggested that pass-books, which the depositors have expressly elected to be personal, should be rigidly maintained as such, while the favourite form of "to bearer" should pass without question. It should be added that by law, transfers to the value of above £6-10-0 must be by written document, so that pass-books containing above the sum cannot be transferred without documentary formalities.

Ample rules are laid down in case of the loss of destruction of a pass-book. The depositor must *at once* inform the bank, and if it is a case of destruction he can get a duplicate on proof of the destruction. In case of loss, or where destruction is not proved, the local Court is notified; if within six months from loss the book is presented at the bank it is at once detained and the bearer and depositor invited to prove their respective claims before the Court. If no such person appears, the bank issues a copy of the depositor's account to the depositor which he presents to the court with a request to issue a notice in the public newspapers in cancellation of the lost pass-book. The notice must give all particulars, and invite claimants to appear within a given time which varies according to the amount of the deposit. If no claimant appears, the Court orders the cancellation of the lost book and the issue of a new one, of the original depositor making oath of his original possession and subsequent loss of the book. The order must be placed on the notice board for 15 days and is then made absolute. All expenses are paid by the loser of the book, but, as far as possible, he is relieved of stamp duties and fees. The above details are given partly to show the lengthy if thorough mode in which matters are dealt with in German offices.

In case of material alteration of the Articles, all depositors must be notified so that they may withdraw if they object to the alterations. Failure to withdraw within three months implies acceptance of the alterations.

Deposits not claimed within thirty years from the last transaction, bear no interest from the expiry of that period. Many banks provide that if, after due notice has been published, such sums are not claimed, they shall become the property of the bank; some provide a ten-year period.

The Regulation orders that the Articles shall require notice, if necessary, in repayments. The general rule is to require notice for all payments above 15 or 30 shillings. The Regulation itself suggests payments on demand up to £1-10-0, two weeks' notice for sums up to £3-15-0, and two month' notice for larger sums. In practice it is probable that notice is not insisted upon. It is usual also to provide for much longer delays in time of war or siege.

Nothing is provided in the Regulation for the disposal of disputes between the bank and its depositors, as in the case of English Savings banks. *q.v.* In Wurtemberg every dispute must go to arbitration; failing such settlement, it may then go before the magistrate.

Savings banks are bound to publish in the gazette their Articles and all changes therein, their guarantee funds, the investments of their deposits, their rate of interest, etc.

M. Le Barbier gives an account of the Communal Savings bank of Merzig, which specially devotes itself to credit amongst small agriculturists; its director, Herr Knebel, is particularly interested in this development, hoping by its means to get rid of "usury

which exploits the peasant beyond all "measure." Herr Knebel believes that if credit is to be usefully granted to peasant holders, loans by private lenders must be absolutely got rid of; only institutions which look to the benefit of the borrower, to his convenience and profit, and to the use he makes of the credit granted, can really help him; private lenders, if not more benevolent philanthropists (and therefore useless if not mischievous) have their own profit to seek, even when working honourably, while there are crowds of usurers, who seek their profit in the entanglement and ignorance of the peasant; in any case, it is not the benefit and profit of the peasant, but of the lender, that is the private lender's aim. In other words, Herr Knebel aims at the same mark as Raiffeisen, and the Savings bank is to be a loan institution as much as a Savings bank. His bank has " agents " who receive savings in the hamlets, report on demands for loans, and collect instalments. The difficulty however of lending to agriculturits is shown by the statistics; in ten years this little bank, expressly intended for small agriculturists, lent £11,080, of which only three-tenths went to agriculture. It is noteworthy that above one-half the loans were used to extinguish usurious debts.

It is, however, in the additioan of Savings branches to Popuar banks or loan societies that agricultural, *i.e.*, personal rural credit is best served by Savings banks; either the credit banks start Savings banks, or the ordinary Savings banks lend to the credit banks. The Raiffeisen societies, especially of the Neuwied Union, tend more and more to rely on savings deposited in their savings branches; in some of these societies there are no funds borrowed from outside; in the Cologne taluk (Kreis), it is the Savings bank department which alone supports agricultural credit. These branches are usually started by the loan societies, as these latter grow in strength and credit, so that the peasants and others bring their savings to the society for investment; in order to prevent complication of accounts, and loss to the Savings department, this latter is kept separate, and merely lends its funds to the society, usually at about 3½ per cent.; in this way local savings provide the means for local credit; the idle hoards of the locality become streams which fertilize local industry. In any case the savings accounts and pass-books are kept separate from the loan accounts, so that a depositor can draw his savings, wholly irrespective of any account that he may have with the loan department.

Similarly, Schulze-Delitzsch recommends the addition of a Savings bank to his popular banks whenever necessary, but with precautions owing to the necessity for paying savings on demand or with every short delay, and the congress of the Schulze-Delitzsch banks in 1885 distinctly recommended the establishments of savings departments as part of the duty of the banks towards the poorer classes, and in their own interests; it was their duty to collect all the savings within their area of operation, and utilize them within that area; it was their interest to do so, for, in times of crisis, it is not the small savings that are withdrawn from a bank, but the deposits of capitalists. It will be remembered that in Schulze-Delitzsch's opinion, credit should depend upon savings, and the man who would not save should not have credit. Hence when the associations had established their position and their reserves, and had attracted long term deposits, they felt it right to foster savings under the usual conditions, adding however one, not unusual in Europe, that if necessary, repayment of savings deposits may be withheld up to three months.

AUSTRIA.—The Savings banks system is similar to that of Germany; in 1889 there were 414 quasi-public Savings banks established by communes, taluks and districts. The amount in deposit at 12 florins per £1 was about £103,000,000 in 2,299,002 accounts—about 1 in 10 of the population—averaging £44-15-0 per account which is 50 per cent. above the Prussian average; the banks appear to deal, as in India, with a somewhat well-to-do class, and not merely with the small folk. The amount invested in mortgages is not stated, but in 1881 it reached five-eighths of the deposits, which in 1889 would mean nearly £65,000,000; as the Savings banks are said by several economists to be the only resort for organized mortgage credit of the small and middle classes of agriculturists, much of this sum was probably spent amongst them.

ITALY.—The Savings banks of this country, outside of the 4,388 postal Savings banks which are recent, are mainly private in their origin, and free as to the disposal of their funds. The distinction between Italian Savings banks and ordinary commercial banks is that they are entirely free from the spirit of gain; they are debarred by their statutes from the distribution of dividends. The State does not directly interfere in their management, but on account of their usefulness and because they are not societies working for profit, it exempts them *partly* from stamp duties, taxes and postal charges.

"In fact the State endeavours to intervene, not merely negatively, in guarding the " institutions from all that might injure them, but positively, by promoting favourable " conditions, and by so submitting them to watchful care as to insure that the savings so " hardly earned shall be securely invested, and not squandered by heartless speculators " (Antoniotti). It is by the " vigilanza " and not by the " ingerenza governativa " that the State acts.

There are, besides the postal banks, three classes, viz., Municipal or Communal, administered by the corporation, benevolent private associations of ancient origin, and private (joint stock societies) established for the purpose, but whose shares bear generally no interest, the original share capital is, however, usually restored to the shareholders as soon as the reserves are sufficiently high; the great Savings bank of Bologna, for instance, has a share capital of only £520, but £120,000 in its reserve which has been formed wholly from

profits. They have been established by men of philanthropic views, and compare, except as to the freedom with which they place their funds, with the Trustee Savings banks of England. Their investments being wholly free, they are able to place their funds locally to the great benefit of local industries inculding agriculture; three of them, including Milan and Bologna, have established Real credit departments, and in 1888 nearly one-fifth of all the funds were invested in mortgages. Moreover Bologna and Sienna among others have directly attempted the 'Credit agricole,' devoting considerable funds chiefly to personal credit loans. In the congress of Savings banks held at Florence in 1885, the duty of serving agricultural credit, *i.e.*, personal and chattel credit, and not land mortgage or real credit, was acknowledged by a unanimous vote, which, however, had no authority and no practical result. Neither have the numerous circulars of the Ministry of Agriculture been productive of greater effect in spite of their appeals to the benevolent aim of these institutions; neither congress resolutions nor even Government circulars avail to change the methods or current of business, let alone the characteristics of a nation.

The fact is that the Italian Savings banks, well served as they are, have not the organization necessary for the numerous and difficult enquiries necessitated by this class of credit; agricultural credit is, of all classes, the most difficult not as regards *la grande* or even *la moyenne* culture, but as regards the immense mass of small cultivators.

Hence the Italian Savings banks, while agreeing in congress resolutions which bind them to no action, have not yet seen their way to agricultural credit direct. But Signor Luzzatti has proposed and many Savings banks are carrying out, an excellent form of assisting agricultural credit, viz., by the indirect mode of granting loans or opening accounts current with popular banks or rural credit societies, to which, in fact, the Savings banks would act as bankers so far as regards the supply of funds. Signor Luzzatti's proposal is that the Savings banks shall simply lend to local credit societies; these latter have all the local knowledge of individuals, while it is easy for the Savings bank to satisfy itself of the position of the society. The loans are either granted direct to the society, or the Savings bank discounts the paper of the individual borrower guaranteed by the countersignature of the local society.

An instance of the latter method is given by the Savings bank of Cuneo mentioned by M. Rostand; this bank had paper to the value of £24,000 in its portfolios; during the year it had discounted paper for £58,000 in 1,021 bills averaging nearly £58; of these, however, two-thirds were below £24, and just one-fourth were below £8. This paper was largely agricultural.

The former plan is, however, that chiefly used and the rural loan societies of Signor Woollemborg are largely financed by loans from the nearest Savings banks; in fact, M du Bled states, that in Italy "most of the societies of mutual credit in a cerain sense lean "upon Savings banks, or are affiliated to them." Similarly the great bank of Bologna engages in agricultural credit; on this Signor Luzzatti expresses himself: "But the "Savings bank of Bologna has found its inability to penetrate into those minute channels "of the agricultural organization, which require credit if agriculture is really to be "benefited; no urban Savings bank can enter into direct relations with agriculturists, "whom it knows not and who live far off. It must place itself in connection with those "smaller institutions which command a clientèle among the poorer classes of farmers who "are in need of credit, and who can only obtain it by co-operative effort."

It will be seen that this idea is that of the Belgian proposal (*see* page 128 *supra*), in which the Central Savings bank was to lend its funds to agriculture by means of "comptoirs agricoles," which were to be formed for the purpose. That plan has not yet succeeded because it has not been found practicable to form the comptoirs in spite of a large subvention offered by Government; in Italy the popular banks, etc., already exist, and only need to be brought into financial relations with the Savings banks.

In 1887 the 395 Savings banks employed about one-fifth of their funds in mortgages, but very little appears which can possibly be construed as agricultural loans.

One other method is noteworthy; the great Savings banks occasionally establish an agricultural or land bank branch, supplying it with a foundation fund for first start; this is the case at Milan and Bologna. At Bologna the land branch has a guarantee capital of £10,000 derived from profits, besides a regular reserve of £4,000. It had in 1883 issued 52,585 debentures of £20 with *coupures* of £4 each, and lent the funds thus obtained on first mortgage, repayable by amortization in from ten to fifty years. It lends also on cash credits covered by mortgages. In 1890 all these figures had considerably increased, and in three years it had only 1 per cent. in arrears. But from 1868 it had only granted 1,146 loans, the average value of which was £1,550, showing that it deals only with large farmers or landholders. Similarly the Savings bank started an agricultural branch for personal credit in 1871, taking advantage of the law of 1869, which permitted societies to issue notes payable to bearer but not at sight, on condition of paying into the Government treasury (Caisse des depots) a guarantee fund equal to one-third of its own capital; this was fixed at £40,000 and was paid by the Savings bank. The agricultural branch had also, according to law, to maintain a cash reserve equal to one-third of its engagements. The Savings bank furnished not only the guarantee fund, but also the working capital, and administered it almost gratuitously by members of its own administration, so that at the beginning of 1890 it had in its portfolio agricultural bills averaging three years in term

for £294,546 besides other loans. Hence as M. Leon Say remarks, its success, if any, was due to ample and cheap funds (from the Savings bank) and almost gratuitous administration. Its director, in a memorandum to the Minister of Agriculture, reports that it has not confined itself to agriculture alone, but has relieved agricultural property and discounted the paper of "local institutions and their members," but the director further remarks that the proper method of extending credit to agriculture is not by special institutions formed *ad hoc*, but by encouraging the development in the rural tracts of petty institutions getting in local savings, making local loans and supervising on the spot the utilization of the borrowed funds; these should be encouraged by the authorities and aided by affiliation to a central institution which should be free from the pursuit of dividends as a primary object. This testimony from the director of a comparatively successful office for agricultural credit is very important. The Savings bank has, in accordance with these views, developed various small Savings banks and popular banks, by organizing them, finding their first expenses, taking shares in them and granting various privileges in the way of funds. Experience has proved that the director was right, and that these affiliated local institutions springing from local—though aided—initiative and managed by local councils, are far preferable to branches or agencies; they have local sympathy, local knowledge and local confidence; they gather in local savings, spend them locally and watch over their utilization on the spot. It remains to be said that this agricultural branch now works, of course, under the new law of 1887-88, which grants special privileges to institutions of agricultural credit, allows certain fiscal favours, and has substituted for the bank notes of the former Act regular debentures of fixed term and bearing interest.

For 1889 the following statistics from the Bollettino of the Minister of Agriculture, etc., are interesting; there were 393 Savings banks proper including branches and exclusive of the 4,388 Postal banks, and the Popular and ordinary banks. Of these Savings banks, 219 were principal and 174 were branches; 117 of these latter belonging to the Milan bank alone, and the remainder to five others. These 393 banks held £45,565,832 of deposits in 358,672 accounts or about £33-11-0 each. It is curious that the 4,388 postal banks had 1,877,403 accounts, with however only £11,032,032 or less than £6 each, showing apparently that a different class had been reached during the fourteen years of their existence; 38 per cent., however, of the accounts in private Savings banks were below £4 and 28 per cent. averaged only £16.

The "patrimony" which includes share capital, endowment fund and reserve, of the private Savings banks is very large; this is chiefly accumulated from profits and equals 10½ per cent. of the deposits: of this the reserve forms three quarters and endowments only one-three-hundredth.

The funds were invested as follows:—

	PER CENT.
Mortgages	17·29
Ordinary bonds	8·27
Bills	9·27
Securities (chiefly of the State; but including land mortgage debentures for 2·73 per cent.).	34·43
Cash credits	5·83
Loans on securities	10·39
Cash in hand	1·36
Miscellaneous	13·37

The bills of exchange worth nearly £6,000,000 represent only those held on the last day of the year, and consequently in no way represent the turn-over of the year; these probably represent private loans, which in Italy (*cf.* Popular banks) are very generally granted in this form. Figures are wanting for the total turn-over of the year, but it must have been very great. It is noteworthy, however, that for ten years there has been a steady decrease in this form of investment, owing to the losses incurred by some banks; it does not appear that Savings banks are well-adapted to deal with bills except for their immediate and well-known clients: they ought not to deal in commercial paper in general. This is the opinion of the Italian minister, who has continually urged a larger investment in State and other good securities, such as land mortgage debentures (cartelle fondiarie). Nearly all the bonds were executed by communes or other corporations, and very few by individuals.

The gross returns from the investments were 4.11 per cent.; deducting 0.91 for expenses, the net profits were 3.21 per cent. or £2,062,300; of this £1,743,020 or about 3.8 per cent. was paid as interest on deposits, the balance £319,280 being net profits; of these profits 17.85 per cent. were spent in works of public utility and charity, 0.41 per cent. in repaying shares, and 81 per cent. went to the reserve.

The expenses were 0.91 per cent. of the funds dealt with or £589,530; these include administration 0.24 per cent. or £155,905, taxes £288,370 or 0.45 per cent.; losses were £95,698 or 0.15 per cent. The weight of the taxation is as noteworthy as the smallness of the cost of administration. The bulk of the taxation, which of course, does not include stamp duties, is due to the tax on "la richezza mobile," a species of income-tax charged at about 13.6 on profits.

The Italian Savings banks have now been placed under a new law (15th July 1888) which is worth noting as the newest organic law on the subject in the world; the English

law of 1891 is only an amending law and that of New York State (1892) recasts the old law. This law will be found translated in another appendix together with its administrative rules; the chief points to be now noticed are the nature of the supervision established by law and the employment of the funds.

Savings banks, exclusive of the new Postal banks, are either public or private; the former are those founded or patronized by public bodies, viz., communes, Provincial and Local Boards, or institutions (Opere pie); the latter are those founded by societies of shareholders and menmbers, but usually beneficent and not lucrative in purpose; in fact it is usual for the Articles to declare that the share which each member must hold shall not only be non-transferable, but shall bear no dividend on interest, and should the member withdraw or be expelled, his share lapses to the reserve and cannot be withrawn by the member; in case of death the heir does not become a member, but the amount of the share is paid over to him; members are elected by their co-members. In fact, all Savings banks in Italy—outside of the Postal banks—are practically ' Opere pie,' and services, except of the staff, are almost always gratuitously given.

Taking 34 banks in consecutive order from the Bulletins of the Minister of Agriculture it is found that 18 were founded by the private action of benevolent citizens; 9 were founded by communes, the banks in such cases being the transmuted forms of previous Monts de Piete which are generally managed by the communal authorities; in two cases the Provincial (district) council, apparently something like a district board, founded the banks and endowed them; in five cases the banks were founded by charitable societies, Monts de Piete, etc.

The endowment fund necessitated by Italian law was provided in each case by the founding members or bodies, and in most cases it is expressly provided that the funds and administrative bodies shall be distinct from, and independent of, those of the founding body, though such body always provides for its representation on the directorate. The members in the private banks provide the endowment fund by their subscriptions or shares, but only in one case is it provided that the shares shall bear interest, and even in this case part of the profits go to a hospital for the poor; in several cases it is expressly provided that the shares are not returnable, except to the heirs in case of death, and they bear no interest.

The reserve funds are far larger than the original capital which is usually below £500, and it is frequently provided that the original share capital shall be returnable in whole or part when the reserve reaches 10 per cent. of the deposits.

In Savings banks the security of the deposits is the first consideration; their utilization in the form of credit is secondary; it will be seen from the following pages, and from the abstract of the Articles of one or two banks how both these objects are served.

The Savings banks are placed under the supervision of the Minister of Agriculture, Commerce and Industry. When it is intended to establish a bank, the promoters must petition the minister, sending also the Articles and Memorandum of Association, and a certificate from the Government " Cassa dei depositi e prestiti " or of a bank of issue, that the endowment fund, which must not be less than £120, has been paid in. The law is so drawn as to give a wide range of freedom to the Articles as regards administration, deposits, employment of funds, etc., thus differing remarkably from the French law which is very precise in itself.

The directorate must serve gratuitously, but the immediate manager may receive an honorarium, and sitting fees are permissible when the bank has deposits of more than £200,000. A paid staff is of course permitted.

Pass-books are personal, to bearer, and personal, but payable to bearer; rules are laid down for the issue of duplicates in the case of loss, and for dealing with opposing claims to deposits. Another form of pass-book is that issued with a special lien or assignment (a vincolo speciale) in favour of a third party, a useful provision which may be utilized on behalf of heirs, etc., without the formality of wills, as in the case of the " Provident Nominations " admitted in the English laws on Savings banks, benefit societies, etc. It may also be usefully adopted by the heads of factories, offices, etc., desirous of encouraging thrift among their work people, by opening accounts in their name, but under control of the masters temporarily or for a given time.

The employment of the funds may be in commercial paper bearing two signatures; in agricultural loans according to the law of 1887; in State paper, in bonds guaranteed by the State; in debentures of land banks authorized by the State; in debentures, etc., of agricultural credit banks; in first mortgages up to half the value of the property pledged; in loans to public bodies or institutions; in loans on pawn of goods; in advances on the deposit of securities of the above classes to four-fifths of their market value. Each Savings bank fixes for itself the proportion of its funds which may be devoted to each class, but mortgages must not be granted for more than one-sixth of the assets, a very small amount when compared with Germany, Austria and the United States, nor for more than thirty years' terms. Banks must not acquire immovable property except for their offices, or as the result of expropriation in case of failures by borrowers to pay their debts, or by bequest; in the two latter cases the property must be sold within ten years.

The net profits must be disposed of as follows: nine-tenths to a reserve and one-tenth to works of public utility; when the reserve equals 10 per cent. of the total deposits, the whole may be spent in useful works or in developing the institution, if any, to which it is attached. Certain taxes and stamp duties are remitted, but, as elsewhere shown, the remainder are terribly heavy, amounting, in taxes only, to nearly twice the amount of the total expenses of management.

The banks are under the charge of the Minister of Agriculture, Industry and Commerce. The law and regulation insist upon inspections both regular and special; the former at least once a year, the latter whenever necessary; the local supervising officer is the Prefect (Collector), who warns the minister whenever inspection seems called for, or carries out such inspection at once in case of urgency. The inspectors are intended chiefly (1) to verify the accounts with the half-yearly statements and annual balance sheet; (2) to ascertain whether the law and Articles are obeyed as to deposits, investments and reserve; (3) to verify the cash balance and the actual presence in hand of the various securities; (4) to examine the general conduct of business.

Directors are bound to place the whole office at the disposal of the inspector from the hour that he arrives and to give all information that may be demanded. A report of the results must be sent by the inspector to the minister, who may, in case of serious irregularity duly proved, obtain the sanction of the Government in council for the dismissal of the directors; in such case a Government commission must within three months proceed to appoint a new directorate according to the Articles of the bank. If inspection proves that half the own capital and reserve (patrimonio) of the bank is lost, the minister may move the dissolution of the bank unless arrangements be made for its reconstitution, in which case the law allows a month for the formation of a sufficient capital which must, in no case, be below that with which the institution was originally endowed; failing such arrangement, the bank is wound up by liquidators appointed by the minister and working under the rules of the Code of Commerce for joint stock societies unless the minister prescribes special rules; the liquidators report directly to the minister.

The banks are also bound to send to the minister (1) their annual balance sheets within one month of their being passed; (2) half-yearly statements in the form and with the information prescribed by Government decree within fifteen days of the close of the half-year. If these instructions are not obeyed, the minister shall send an inspector to compel them.

Directors are held responsible in their property for due observance of the laws and Articles, and are liable to pecuniary penalties for misfeasance.

In the matter of the reserve, it should be noticed that not only is a general reserve to be established and kept full up to 10 per cent. of the deposits, as a guarantee fund for the depositors, but special reserves are desirable to promote beneficial objects, to supply any loss caused by market fluctuations in securities, to provide for the gradual recoupment of casual losses, etc.

The law does not lay down rules for the working of the bank, but leaves such details to the Articles. The limits of this study, which does not include Savings banks except in so far as to show their capacity for granting rural credit, do not permit further details which belong rather to a manual, but the words of Signor Besta, quoted by Signor Antoniotti, are too suggestive to be omitted: "For such office (director of a Savings bank) "should be selected only such as have the right capacity, such as are honest beyond "suspicion, such as are educated in the sense of duty to that degree that they think "it shame not only to do evil, but not to use their utmost and willing efforts for good."

The following extracts from the Articles of a few Savings banks will be found useful:—

Classes.—Savings banks are either private, formed by a few beneficent men or quasi-public, founded by communes, public bodies or benevolent institutions, such as Monti di-pieta, etc. The promotion, formation, endowment and management of Savings banks are regarded as important modes of philanthropic effort, but the banks are business concerns and managed in business-like fashion by business men, absolutely, however, without expectation of gain.

Administration.—In the case of private Savings banks, answering in some respects to the English Trustee banks, the number of members (trustees) is seldom above 100; these subscribe shares to make up the minimum guarantee capital (£120) required by law. The Prato bank requires that they shall be selected from men "who, by their social position, "office, reputation, education (gradi accademici), economic and financial knowledge, seem "most likely to promote the good of the institution." That is a universal feature in these banks; the trustees are allowed absolutely no interest, dividends or profits on their shares or in any other way; they run the risk of loss without any corresponding chance of gain, yet they are willing and anxious to accept risk and undertake the duties in order to promote thrift and well-being among the less favoured classes. It is not every one who can become a trustee; the office is sought for and proper persons selected with great care. Not only so, but the delicate and difficult duties of office-bearers, viz., directors and auditors are absolutely gratuitous (*see* sketch of Milan Savings bank); the office manager and staff are alone paid, though the whole responsibility of managing the banks falls upon the office-holders. This feature is also universal. In some of the larger banks a small sitting fee is allowed to the directors and auditors, but no other honorarium.

In private banks, it is usual to elect directors and auditors (*sindaci*) and a paid manager. The directors are the administrative officials, working through the maager who represents the bank to third parties, while the *sindaci* have not only all the powers of continuous auditors, but must supervise the working of the bank's system, and see that the Articles are duly observed. In banks managed by a public body, it is usual (*e.g.*, Verona) to appoint a supervising Comittee (commissione di sindacato) with a small sub-comittee of adminisraive officers and paid staff.

Deposits.—Deposits are either ordinary or special; these latter are again sub-divided.

Ordinary deposits are those for which the bank is ordinarily intended; they are received up to a general limit of £200 to £300, and are entered in pass-books either to bearer (the most usual in Italy or personal. The minimum is often 10*d.*, but a penny (centesimi dieci) is common even in ordinary Savings banks and for ordinary deposits; *e.g.*, in Cortona the minimum received is a penney, the maximum limit of deposits is £280 Ordinary deposits are usually withdrawable without notice up to £2 or £8; more if the bank is a large urban one; notice on a sliding scale is required for larger withdrawals.

Special deposits are (1) those taken from institutions, minors, etc.; (2) those which result from the petty savings of the poorer classes (answering to the penny deposits in England, though these latter are taken only in 'Penny' banks); (3) deposit notes (as in the Scotch banks). In all these cases the pass-books or notes are personal only and not payable to bearer. In the first sub-division the minimum and maximum receivable are both much higher than for ordinary deposits. Some banks only admit institutions of a beneficent character, such as Friendly societies for artisans and agriculturists not founded "*a base di dividendo*" or societies formed to encourage thrift.

The second class are very important; they are expressly intended to encourage thrift among classes seldom thrifty or who are too poor to save except in pence; such are labourers, petty tenants, domestic servants, elementary school teachers, the lower grades of public servants, students and scholars, and all the numerous classes of persons with small salaries. In these cases the minimum deposit is from 1*d.* to 5*d.*, the rate of interest is 0.5 per cent. higher than the ordinary rate of the bank, and the total receivable is from £20 to £80 according to the bank. It is usual to allow this favoured class to attain only a certain proportion, 5 or 10 per cent., of the total deposits. The Cortona and Foligno banks specially encourage this class by establishing a fund from which, at the end of each year, premia are granted to those depositors who, during the year, have made at least forty payments, and no withdrawals.

The third class are simple receipts for sums of from £4 to £800, but the part or whole may be drawn out on due notice; they bear interest like ordinary deposits.

Investments.—The investment of these funds is various, but it is always expected that, security being duly considered, the funds shall, as far as possible, be productively and locally employed in loans to small popular banks and *Casse rurali*, especially at their inception; the following investments are usual; mortgages up to one-half or three-fifth of the estimated value of a property after deducting charges; loans to public bodies; advances upon certain classes of securities; the discount and rediscount of bills for not above six months, bearing three good names or guaranteed by good security; advances upon deposit of silk (*cf.* Milan) and other goods; purchase of good securities chiefly those at the State or public bodies, or the debentures of the specially recognized institutions of land and agricultural credit; the creation of institutions of agricultural credit (*cf.* Milan and Bologna), or partnership in the same: under this head probably come loans to Popular banks and Casse rurali; special loans to workmen for the purchase of tools (*cf.* the "loans upon honour" of the Popular banks); advances upon labour notes, *i.e.*, workmen's wage bills accepted or endorsed by an employer of labour for work done for him; in accounts current or cash credits based upon mortgages, or the deposit of securities, etc. Pawnbroking is operated in two ways, (1) directly, *e.g.*, Cortona, by advancing upto two-thirds of the value of goods pledged; (2) indirectly, *e.g.*, Verona, by opening an account current with a Monte di Pieta which effects the actual operations; Savings banks not infrequently sprang from such Monti, and therefore continue the relation. As elsewhere stated, the Italian banks dispose freely of their funds in these various ways, but it is usual to fix a *limit*, *e.g.*, six-tenths (Cortona) of the deposits, beyond which loans and cash credits may not be granted; so also for mortgages in particular, a certain limit—20 or 30 per cent. of the deposits—is usually fixed; similarly a limit of 10 or 15 per cent. of the total deposits for bills and simple bonds. Mortgages may be granted for five or ten years if repayable in lump, or for twenty-five, thirty or even fifty years if repayable by annuity. One bank, and probably others, provides a right to call in mortgage loans on four months' notice; this is also found in the Montiers Savings bank in Switzerland, and though never found in ordinary land banks may possibly be necessary for Savings banks. Banks which discount bills on land or simple bonds usually provide a "castelletto" (*see* 'Popular banks, Italy') or register of solvent persons who may be granted loans or accepted as sureties to the amount entered against each; this is revised by a discount committee every six months at least.

Profits.—Profits are never divisible among the members (trustees), but are by law to be disposed of as follows; to the reserve nine-tenths till it equals 10 per cent. of the deposits; the remainder to works of beneficence or public utility, or to the maintenance of the institution which founded the bank. When the reserve is full the following may be taken as a probable division of the profits: two-tenths to the reserve; three-tenths to a special reserve to provide against special losses by a decrease in values; five-tenths to works of utility, beneficence or the promotion of thrift, or part of this sum may go to the Pension Fund, if any, of the bank. It is customary also to provide that if the bank has to be wound up, any remaining assets shall be devoted to some work of public utility.

Many other provisions are found, but the above will show the general working of these banks. For further details *see* 'Articles of the Verona Savings bank,' etc., translated in another appendix.

MILAN.—The Milan Savings bank requires special notice, for though a Savings bank proper, it is a marvellous institution and probably the greatest example in the world of its class

of institution if indeed it is not a class *per se*. The following account is chiefly taken from M. Rostand's ' Une visite en Italie ' (1891), and the facts recorded, though slightly outside of this study, are stimulative in the highest degree. Briefly, the bank is one without capital, shareholders or dividends, but with a vast reserve; its deposits are enormous, and its utilization of them under the system of the free employment of funds, in the highest degree prudent and economically fruitful; its administration is absolutely gratuitous, though the total funds disposed of annually approach £20,000,000, and the income £1,000,000 while the disposal of such funds involves great financial knowledge and prudence.

It was founded in 1823 by a benevolent committee, which, in 1818, was formed to manage a capital of £20,000 intended for the succour of the famine-stricken. Beginning in this way, it has preserved its character for absolutely gratuitous administration; the direction has from that day to this been entirely conducted by men of position " who give without measure their time and their skill " to the task, which is one not of mere collection of funds and its investment in Government paper, but involves financial knowledge, skill and prudence. The staff alone is paid; this numbers 140 at head-quarters and above 200 at the 117 branches.

In 1823 the bank began with 729 accounts for £10,340: on 1st January 1890, there were 448,744 accounts for £17,343,234 averaging £38-12, nearly 99 per cent, being in pass-books payable " to bearer," though interest on non-transferable books was $\frac{3}{4}$ per cent. higher.

These enormous funds, with other assets of about $2\frac{1}{2}$ millions sterling, are invested largely in Government paper (about £9,553,000), mortgages (£3,720,000), loans to communes, etc., (£1,650,480) municipal, railway, land bank and other debentures (£2,269,000) commercial bills (£280,000), advances on warrants (£323,596), other good securities and cash, etc. The item for bills is merely that in the portfolio on the 1st January; the annual business in such bills is immensely greater, while from M. Rostand's statement and the known operations of the bank it appears that these bills are largely the discount or rediscount of the bills of Popular banks. It will be seen that the investments combine solidity with liquidity, and that about one-fifth is granted on mortgages proper, and another fifth in loans direct or by purchase of debentures, to communes, towns, commercial and industrial institutions, so that credit and industry are well promoted, while security is maintained.

The operations of the Savings bank do not end here; it has promoted, perhaps established, the silk industry in Milan by its advances on warrants which represent silk in cocoon or piece in the bonded warehouse which it has established in Milan.

It is one of the eight banks which have established a land branch or Credit Foncier To this end it has set apart a separate guarantee fund of £200,000, upon which it issues mortgage debentures and thus grants mortgage loans. These are wholly separate from the mortgages above noted which are merely the investments of the Savings bank proper; in its land branch it had in circulation at the end of 1890, just £6,000,000 in debentures, and had granted mortgages for a similar amount; the expenses of the branch were £9,446 and taxes £10,050.

In addition to these operations it promotes in various ways, chiefly by taking shares or giving a guarantee, several industrial and beneficent societies, such as that for workmen's houses, an assurance office against accidents to artisans; it also gives grants-in-aid to more than 30 benevolent institutions on which, including grants to the charity committees of 458 communes, if spent, in 1889, £56,462 from a special fund of £182,860. This fund (" fund for promoting works of charity and public utility ") is formed from the net profits, of which one-fourth are assigned to it so long as the reserve has not attained one-tenth of the deposits; after the reserve is full, the whole of the net profits may go to the benevolent fund, from which, in thirty years, no less than £571,442 have been spent in promoting providence, public charity, and assistance to the sick and needy, though it is only of late years that the fund has attained large proportions. The gross returns in 1889 were £938,609 or $4\frac{3}{4}$ per cent. on the total assets. From this was paid interest (£568,000) on deposits at $3\frac{1}{4}$ per cent. for pass-books to bearer and 4 per cent on " livrets nominatifs "; general expenses were £183,265, including the pay of the staff, all miscellaneous expenses, the upkeep of the bonded warehouse, and £129,486 for taxation (!).

The reserve is formed from the net profits, and must increase up to 10 per cent. of the deposits; it was, in 1889, almost £2,000,000 sterling; the net profits in that year were £116,960, of which the beneficent fund got £30,000 and the reserve £80,000. This vast reserve has been accumulated solely from profits, there being no dividends to absorb these latter.

There is no more attractive and stimulating example to be found in Europe, save that of the marvellous co-operative credit organizations of Germany, Italy and Austria, and the great co-operative Friendly, Benefit and Building societies of Great Britain and America than this great Savings bank in Milan, administered absolutely gratuitously by the highest skill, operating safely and surely, collecting and securing deposits, fructifying trade industry and commerce by a wise choice of investments, assisting thrift, prudence and the virtue of organized charity by its select methods of expending surplus profits. These profits are not gained at the expense of the depositors, who get good interest for their money; they are derived from the gratuitousness of administration and the absence of a share capital with its absorptive dividends; if the reserve of £2,000,000 were share capital, the net profits of £116,960 would practically be absorbed at only 5 per cent. interest, and it is safe to say that the interest on deposits would be cut down, the beneficent fund a missing

item, the liberal pay accorded to the staff a bare stipend, and their reserve fund, endowed by the bank, an unknown institution, had the bank been a joint stock company with share capital and a highly-paid directorate. In its Savings banks, Popular banks and rural credit societies, Italy takes a foremost rank so far as public spirit, generous self-devotion, prudent business habits, and beneficent and statesmanlike foresight are concerned.

* SWITZERLAND.—This is pre-eminently the country of Savings banks; only it must be understood that many, so called, are really mere banks of ordinary deposit, accepting sums either without limit or up to perhaps £800; others are really credit institutions receiving savings deposits, *i.e.*, very small sums, because their clientele is of small means; a large number are mutual institutions corresponding in many ways to the English and American Building Societies (Co-operative banks) or the Nidhis of Madras; others are simply small Joint Stock banks. For instance, in 1882 there were 487 so-called Savings banks with £20,546,328 of deposits; but of these, only 325 were Savings banks proper (eigentliche Sparkassen), and these had savings deposits for only £9,734,390 or less than half, while the 141 others were credit institutions accepting savings deposits, and in addition to their share of £10,691,938 of savings possessed £19,112,005 of "other deposits or funds of other creditors," and a share capital of £4,668, 265, as against "other deposits" of only £269,200, and a share capital of only £41,814 for the 325 Savings banks proper. M. Durand points out that the title of Savings bank mostly—le plus souvent—means a banking society pure and simple which takes savings deposits, and that the savings deposits often bear a trifling proportion to ordinary deposits even in so-called Sparkassen; *e.g.*, the Sparbank of Lucerne had £30,660 in ordinary deposits and only £362 in savings deposits. Allowing for this however, the Swiss Savings banks are notable institutions; in 1886 they had 802,697 depositors with £23,748,993 of deposits; the population (1888) was only 2,934,000, so that actually more than one-fourth of the entire population of all ages had savings deposit accounts averaging £29-10-0 each, altogether apart from the immense deposits and numerous depositors in other banks and other heads.

The 487 Savings banks, including the credit banks taking savings deposits, are of five classes:

(1) Those guaranteed by the State (canton);
(2) Those guaranteed by communes;
(3) Joint stock societies;
(4) Mutual Savings banks founded by associations (von Genossenschaften):
(5) Private Savings banks.

The following table shows the work of these various classes, for 1882 including, except in the lowest line, the powerful and wealthy quasi-Savings banks:—

Class.	Number.	Branches and receiving offices.	Depositors.	Liabilities.				
				Savings deposits.	Other deposits, etc.	Capital paid up.	Reserves.	Total.
				£	£	£	£	£
I. State	15	396	201,950	5,436,461	11,066,465	3 073,649	346,450	19,923,025
II. Communal	36	2	36 944	1,180,540	581,476	9,200	53,310	1,824,526
III. Joint stock	141	219	168,513	5,049,167	6,718.675	1,445,266	283,148	13,513,858
IV. Co-operative	242	359	316,713	8,422 035	1,006,331	175,834	445,022	10,049,221
V. Private	53	..	22,864	474,922	8,258	6,128	1,424	490,835
Total ..	487	976	745,335	20,546,328	19,381,205	4,710,079	1,147,056	45,784,664
Savings banks proper included in the above 487.	325	426	380,402	9,734,390	269,200	41,814	468,331	10,633,734

Class.	Assets.							Remarks.
	Loans.		Paper of public bodies.	Railway and other industrial stock.	Real estate, offices, etc.	Miscellaneous cash, etc.	Total.	
	Mortgages.	On security or pledge.						
	£	£	£	£	£	£	£	
I. State ..	11,890,055	3,959,896	846,833	33,668	180,424	2,919,148	19,923,025	The total is not exactly the aggregate of the figures for the classes, as a slight deduction, not worth entering, has been made for double entries.
II. Communal.	1,424.144	244,501	60,296	10,096	19,508	65 976	1,824,526	
III. Joint stock.	5,773,877	4,523,975	578,260	74,558	235,859	2,327,328	13,513,858	
IV. Co-operative.	6,816,178	1,371,903	1,219,716	50,748	80,464	510,210	10,049,221	
V. Private ..	105,925	219,138	18,475	2,870	4,947	139,480	490,835	
Total ..	26,010,180	10,313,908	2,723,586	171,937	521,200	6,055,144	45,784,664	
Savings banks proper, included in the above 487.	7,291,166	1,069,954	1,611,336	65,270	90,016	505,9-8	10,633,734	

* The information is not up to date, as the official compilation from which these facts are drawn, though published in 1889, gives facts only for 1882 with a brief supplement for 1886. An introduction to these statistics was promised at some future date; if procured in time, further notes will be possible.

It will be remembered that Switzerland contains 25 cantons, each averaging only about 120,000 inhabitants, or less than the population of a Madras taluk: hence a State bank operates only over a very small area. The fifteen State banks have a large number of receiving offices; these are chiefly (325) in six cantons only; in some of the circles of these cantons every village has a receiving office. This accounts for the large number of depositors, four-fifteenths of the whole, and the large deposits. Class IV is the co-operative class, and accounts for exactly half the total number of banks, three-sevenths of the members, and about one-fourth of the deposits; its collecting offices are frequently placed at factories, for the benefit of the workmen. Class II, communal, are of comparatively small importance in Switzerland, where "States" are so small as to be able to work State banks, and where co-operation is so prevalent.

It will be observed that in the State Savings banks only one-third of the deposits are savings deposits proper; in the joint stock they are somewhat less than one-half, while in the other classes they enormously exceed "other deposits"; the co-operative, for instance, have 8½ millions in savings as against 1 million in other deposits. It will also be noticed that the 325 Savings banks proper had about half the total number of depositors, less than half the savings deposits, and practically none at all of other deposits.

A noticeable feature of the State guaranteed banks is their large share capital; these fifteen banks have twice as much paid-up capital as the 141 Joint-Stock banks, and the capital is two-elevenths of the deposits, while in the Joint Stock banks it is about one-eighth; hence a large number of small Joint Stock banks can attaract with apparent safety and confidence very large deposits on a capital proportionately much smaller than the State banks with their additional guarantee; not only so, but their loans are proportionately greater. Moreover the cantons of Berne and St. Gall have between them, just half (71) of the Joint Stock banks; on testing the details it is proved that 39 of the 65 which have their capital entered, possess a capital of less than £1,000, and 18 are below £500. It should be noticed again that the 325 Savings banks proper possess in all a paid-up capital of only £41,814, showing that, as a rule, they are not Joint Stock or State banks, but mostly co-operative associations; yet these banks, practically without capital, have Savings deposits of £9,734,390. The secret is only partly in the reserves, which in these same banks aggregate £468,331 or below 5 per cent. of the deposits; it is clear that it is in the smallness and local nature of the banks, in their proximity to the people and in the mutuality of their working, viz., by amongst and for the members that the real secret of their success lies, for they are not Trustee Savings banks, guaranteed by a number of wealthy men and protected against loss by having all their funds placed in Government stock, but are under the regime of the free disposal of funds; these very banks have £7,291,166, or nearly three-fourths of their deposits on mortgage and £1,069,954 loans on surety and pledge.

Taking cantons Zurich and Berne as examples, since these two have 99 out of the 325 Savings banks proper, it is found that in Zurich, which has 45 of these banks, there are Communal banks 1 and Co-operative 43; in Berne with 54—2 are Communal, 17 are Joint Stock and 35 are Co-operative. In Berne it is noteworthy that many of the Joint Stock Savings banks proer, though with very petty capitals, have very large deposits; *e.g.*, the Courtelary bank has only £585 of paid-up capital, but £306,317 of deposits (savings only); that of Dünenroth with only £175 of paid-up capital has £14,692 of savings deposits. In most cases of this sort the reserves are considerable; *e.g.*, Courtelary has £14,432, but, as a rule, they seem insufficient for safety; even Courtelary is below 5 per cent. and in Bissecourt with £600 of paid-up capital and £41,560 of deposits, the reserve is only £204 though the bank was established in 1865. It is possible that the unpaid capital is very considerable, though by Swiss law it cannot exceed the amount paid up, since no shares of a Joint Sock company can be put on the market till they are half paid up, but, as a fact, Courtelary has been a Savings bank since 1829, and seems therefore to be safe: so also Aeschi, with oly £213 of paid-up capital and £286 of reserve, but £10,131 of deposits, has been in operation since 1834. Probably it is in the solidity of the investments and the proximity and even relationship of banks and clients that the safety of these banks lies.

The immense amount on mortgage is a noticeable feature amongst all except the private banks, which are generally attached to factories for the benefit of the workmen. No less than £26,010,180 was thus lent out of deposits of £37,927,533 or 65 per cent., a higher average than in any other country in the world, and due chiefly to the fact that the mortgage laws are simple, procedure expeditious and cheap, and above all that the banks are at the doors of the people.

Other loans were not nelected, no less than £10,313,908, or about 25 per cent. of the deposits, being lent on personal security and on pledge; hence 90 per cent. of all deposits were granted on loan. Even the Savings banks proper had about 83 per cent. of their total deposits in mortgages (73) and other loans (10).

It should be remarked that these banks are not ephemeral institutions, springing up and failing in a year or in a decade: no less than 115 out of 487 or nearly one-fourth were founded before 1850; many of them more than fifty years ago; 209 or five-twelfths had, in 1882, been founded more than twenty years. The co-operative associations have a large share of the older foundations; *e.g.*, in Zurich 33 out of 44 were more than twenty years old; in Berne 17 out of 35; in Aargau 18 out of 30.

It has been seen above that the average for savings depositors in 1886 was £29-10-0, a large increase on 1882, when it was only £25-12-0. Both these figures are for savings deposits alone. To complete the sketch the following particulars are added for 1882.

Class.	Depositors.							Remarks.
	Below £4.	From £4 to £20.	From £20 to £40.	From £40 to £80.	From £80 to £200.	Above £200.	Total.	
I. State guarantee ..	63,341	67,149	30,979	25,080	12,600	2,801	201,950	These figures are taken from the tables, but slightly disagree with the figures in the former table, probably from double entries.
II. Communal ..	11,874	12,051	4,988	4,155	2,614	1,223	36,944	
III. Joint Stock ..	52,860	56,088	22,692	17,802	10,657	4,069	163,668	
IV. Co-operative ..	123,561	97,808	41,192	32,250	22,689	3,345	320,845	
V. Private	12,048	6,028	2,137	1,432	866	360	22,871	
Total ..	263,684	239,124	101,988	80,219	49,426	11,837	746,278	

It will be seen that more than 35 per cent. are depositors of £4 or less, and that almost half of these are in the Co-operative banks; 32 per cent. held between £4 and £20, and of these nearly 41 per cent. are in the Co-operative banks.

Deposits generally bear interest at about 4 per cent. which rises to 5 and even 6 per cent in some of the Co-operative and private banks. In 1882 the lowest rates, 3½ to 4 per cent. were in the State and Communal banks, 4 and 4½ being common in the Joint Stock and the same in the Co-operative banks. In 1886 there was a general reduction, except in the State banks, of about one-quarter to one-half per cent. The private banks seem generally to give about 1 per cent. more than the others. Many banks have no limit to the amount of deposits accepted, but Savings banks proper, as a rule, limit them to £80 to £200, or give either no interest or a smaller interest on sums beyond those amounts. Sums up to £4 or £8 may usually be withdrawn without notice; for larger sums it is usual to stipulate for one month's notice up to £20, and two or even three months for larger sums; there are, of course, very many different arrangements.

The minimum for in-payments is very remarkable; in the State banks it is generally from 10*d.* to 4*s.* 2*d.*, in two cases 5*d.* being accepted. In the Communal banks the minima are similar for most of the banks, but for the seven banks in Canton Glaris, the minimum is one-half penny (5 centimes); these are all 'Chidren's (Penny) banks'; depositors must withdraw at sixteen or twenty years of age. In the Joint Stock banks the rate is the same as in the State banks, with the exception of a few 5 centime banks. But in the Co-operative banks the rule is the converse; only in 44 out of 242 is the minimum above 10*d.* (1 franc), while in a large number (81) of cases (children's or school banks) the minimum is one-half penny, and even one-tenth of a penny (1 centime); 1 franc is the general rate for the ordinary banks of this class. But the large number (24) which will take 1 centime (less than 1 pie) is noticeable, as showing the attention paid to youthful thrift and the willingness to accept such extraordinarily small sums. In the private banks chiefly attached to factories, 1 penny and one-half penny are common minima.

On the whole the Swiss lesson is that very small banks with small capital can attract, with safety, large savings deposits, provided (1) that they are local, (2) that they have decent reserves, (3) that they are managed by local men with local knowledge, (4) that their investments are solid, prudent and *in situ*, (5) that repayments are made readily.

The following description of two Savings banks will be useful whether they are viewed as savings or credit institutions. That of Moutiers is one of the small private Joint Stock banks; that of Vaud is worked by the cantonal mortgage bank and is practically a State institution.

The Vaudoise Cantonal Savings bank is administered by the cantonal mortgage bank (*q.v.*) and has, therefore, no directorate, etc., of its own. It was established in 1848 by the State, which guarantees and supervises it. It receives deposits of not less than 5 francs at one time, a minimum much too high for a true Savings bank; the maximum to be held in deposit including interest, is at present £200. The bank has branches and the Government tax collectors are charged with receipts and payments on account of the bank.

Interest is not less than 3½ per cent., but is calculated as follows; on deposits paid in during the first fortnight of a month from the first of next month; on deposits paid in during the second fortnight of a month from the 15th of next month, but no interest is paid on deposits withdrawn within three months. The bank thus obtains considerable gain. Any excess in the maximum deposit bears no interest.

Withdrawals can only be made after notice, viz., fifteen days for sums below £20, one month for sums from £20 to £80 and three months for sums above £80. This is the "clause de sauvegarde," which is universal in the European Savings banks, though some banks provide no notice for small sums, and in most it is not customary in *practice* to require notice if there is cash to meet small demands. In cases of succession proof must be offered of heirship.

All postal charges are borne by the bank. The pass books are only personal, and in case of loss notice must at once be given by the owner; after three months, public notice a duplicate may be granted to him.

On 31st December 1889, the Savings bank had 38,215 accounts with £1,060,625 in deposits averaging £27-15-0 each. But the payments-in were only 29,061 averaging

£7-15-0 each, and the withdrawals 12,468 averaging £18-8-0, so that the bank cannot be called a Savings bank in the true sense of the word, but rather a deposit bank. There were in operation twenty agencies. As the funds of this bank are utilized by the mortgage bank, there is no separate account of its investments.

The Savings bank of Moutiers is the exact opposite of the Vaudoise bank. It is a small Joint Stock bank (limited), and is one of the " Societies minuscules " which form the majority of Swiss banks in general; it has no Government connection, no privileges, no subvention, but is an autonomous private bank working primarily for the profit of its shareholders, and secondarily for the benefit of the public; its object, as stated in its Articles, is to give to the working classes and agriculturists a secure deposit for their earnings, and the opportunity of obtaining cheap credit. It was founded in 1856. The bank has a share capital of only £800 in 100 shares entirely paid up, personal and indivisible, but transferable in the usual way. No one may hold more than four shares. The interests of the depositing public are guaranteed by (1) the share capital, (2) the reserve, which in 1888 was £1,400.

The General Assembly has the usual powers, and appoints the directorate, auditors—who need not be members—and the paid manager. The directorate has all the usual powers of supervision and control; the auditors are to have every facility for checking the books and cash balances, but no details are laid down for their work; the manager is the executive officer and must give security; he represents the bank under the orders of the directorate. Every director and the manager must own and deposit one share.

Deposits are received with a minimum of 1 franc; the rate of interest is periodically fixed by the directors, but does not accrue at all for the first fifteen days, nor till the deposits have reached 5 francs and been lodged for three months. No maximum is fixed for deposits, and the Articles contemplate withdrawals as high as £800, showing that the bank differs (in statutes, but not in practice) from the true Savings bank. The directors can refuse deposits if they have superabundant funds; this again is a breach of true Savings bank rules. Withdrawals are solely upon the pass-book; no notice is required for sums up to £8; eight days for sums between £8 and £20, thirty days for sums between £20 and £800, and three months for larger sums. In case of decease, the heirs must prove their title before the manager; the method of proof is not stated. Loans are granted at 5 per cent. including commission; they may be ordinary mortgages up to one-half of the settlement value; mortgages up to four-fifths with two good personal sureties in addition; advances upon good mortgages of the above nature; simple loans of short term (six months with prolongations) with two or more personal sureties, and not exceeding £40; not more than 10 per cent. of the deposits may be granted in this mode; cash credits based on the first three classes of security. Surplus funds are invested in Government or guaranteed securities.

Mortgages must be first mortgages only, with complete proof of title and value in the usual way; the Swiss settlement and registration system provide clear proof both of title, of the extent and official value of the property, and of any charges which may burden it. If the certificate of the Conservator of mortgages shows previous mortgages, it is open to the bank to pay them off the borrower being charged with the expenses of such proceedings.

Arrears of annuities are charged with 5 per cent. interest, and if unpaid for six months the whole capital may be demanded without further notice.

A borrower may always repay his loan in whole or in part on three months' notice; conversely—and this is an unusual provision—the bank can equally demand repayment on the same notice (la Caisse pourra egalement, moyennant denonciation prealable de 3 mois, exiger le remboursement du capital). Probably this latter provision is only used when property is being mismanaged or is deteriorating, or the bank's security is endangered.

The balance sheet must be presented to the general meeting every year, and the directors cannot vote on any point which may have to be discussed; an extract is published in two newspapers. Profits are divided as follows: 40 per cent. to the reserve; 40 per cent. to the shareholders; 10 per cent. to the manager; 5 per cent. to the directors; and 5 per cent. to some work of public utility.

If losses which exhaust the reserve and half the capital are experienced, the directors are bound to call a general meeting to decide whether the bank should not be wound up; for the dicision in such case a simple majority suffices; in other cases a three-quarter majority in a meeting of at least eighty shareholders is necessary to determine upon liquidation.

The reports of the bank have not been procured for the present study, but in 1882 this little bank with £800 of capital and £1,052 of reserve had deposits of £84,630 or above one hundred times the capital and forty-five times the capital and reserve. The Articles nowhere provide for the safe investment, *e.g.*, in State paper, of either capital or reserve, and as the capital is fully paid up, it follows that the depositors may easily find themselves without the slightest guarantee from these funds; there is nothing to prevent the directors from lending out capital and reserve in ordinary loans. The real security of the depositors therefore rests on the mass of loans granted by the bank, and this is not altogether satisfactory in Europe, where values of agricultural land have fallen owing to external competition: evictions and losses shown by several Swiss mortgage banks (*q.v.*) show this. The law or the Articles should provide, especially when the capital is so small both absolutely and relatively to the deposits, that the whole capital and reserve should be invested in Government paper only. The mortgage loans in 1882 were valued at £82,525, and loans on personal credit £3,249; there were 1,550 members, who in 1886 had increased to 1,811 while deposits had gone up to £98,632, or about fifty times the capital and reserve.

The interest on deposits in 1886 was 4 per cent, as against 4¼ in 1882. In 1882 nearly one-third of the members had deposits below £4 and two-sevenths more between £4 and £20; only sixty-five held above £200, so that the bank was acting as a Savings bank though its statutes display it rather as a deposit bank.

The bank is described in order to show the working and methods of these petty Swiss banks (Savings banks so called), in which the joint stock principle is the basis of the bank and the first security of the depositors, it is clear that very small banks may be thoroughly successful if worked prudently; probably as the bank is quite local, the depositors base their confidence rather on the status and character of the directors, who must be well known to them, than on the minute capital and small reserve. The interest on loans—5 per cent. including commission—is very moderate considering the smallness of the bank.

FRANCE.—In this country postal Savings banks were only adopted in 1881. Before that time, however, private Savings banks had existed in large numbers from 1818. For the purposes of this study they have little interest save from one or two points of view, for they are bound by law to invest all their funds in the purchase of Government paper through the "Caisse de depots et consignations" except such as are placed in account current with the treasury; hence no portion of their funds is utilized in agricultural or local credit; in fact they draw off the numerous rills of petty saving and force them into the rservoir of Government floating debt, and thus actually sterilise the hamlets and villages.

But their status, management, and the supervision exercised over them are fruitful of suggestion.

They fall under three classes, viz., those started by Societies, those dependent upon charitable institutions, and those under the patronage of communes and municipalities. The first-named are formed by a group of shareholders, but the capital, intended as a guarantee, is generally in the nature of a charitable philanthropic endowment and not of a commercial investment; they are not societies formed for the profit of shareholders, but for the development of thrift by depositors. Subject to the general supervision noticed hereafter, they are wholly independent, but, like all others, must invest their funds in Government paper. The second class are not numerous. The third are much the most numerous especially since 1835; the sanction of Government is required in each case before a Savings bank is started, and the Communal authorities are held responsible for the safety of the funds.

The system now develops rather by the establishment of branches than by the institution of new banks; in 1889 there were 547 banks with 987 branches.

Administration differs according to the form of the bank, the independent societies have their directorates like any other joint stock company; those of the second class are administered by the directorate of the parent institution; those of the third class by a committee elected by the municipal (Communal) council; a third of these are usually municipal councillors, the others local notables, whether councillors or otherwise; once appointed, they are, however, independent of the municipality or Communal council.

The general control of the banks is under the Minister of Commerce, who, through the Prefects (Collectors) exercises over them a species of general guardianship. But it is the Financial department which seriously controls them; the Réceveurs des finances are bound to verify the accounts, personally or by agent, as often as possible, and at least once in three months; these examinations are confined to the verification of the cash balances, and of the existence in hand of securities entered on the registers: they must also see that the accounts are regularly kept.

But the inspectors of the Financial department are required to make a complete audit of the accounts, and examinations of the whole business of the bank; they must examine the system of accounts adopted, enquire whether the staff is efficient, and whether the banks observe the conditions of the law.

Both the réceveurs and the inspectors report the results with their suggestions to the Minister of Finance, who, in consultation with the Minister of Commerce, arranges for any necessary steps. The inspecting officers have no direct powers save those of examination, and cannot interfere with the management or with the staff or with the operations whatever they may discover; all these are matters for the directorate only. No pecuniary responsibility rests upon Government by reason of these examinations which are mere matters of audit and supervision.

GREAT BRITAIN.—In the following paragraphs the postal Savings banks are not dealt with, but only the Trustee Savings banks; these are private institutions now numbering about 308 with deposits of nearly £43,000,000 and 1,510,000 depositors; the number of banks has decreased from 625 in 1859, probably in consequence of the establishment of the postal Savings banks in 1861, but the number of depositors and the amount of deposits have sensibly increased in spite of a lowering of interest from about 3 to about 2½ per cent. on deposits.

There is much to be learnt from the history of these banks, and of the legislation found necessary for them, especially from the latest development, viz., the law of 1891 which followed upon the Parliamentary committee of 1888-89, and which has created an inspection committee for the better regulation of the working of the banks. This later legislation with its administrative development, is the more important when it is remembered that the banks are institutions founded and worked by English men of business, that they have been in operation for almost a century and that every new phase of legislation has resulted in a stricter supervision.

The law of 1817 recognized these banks as institutions of public utility and beneficence, in that they were founded for the encouragement of thrift, while their founders (trustees) gave their services gratuitously and were to derive no manner of benefit from the deposits. The trustees in fact were actuated by philanthropic motives, and while running no inconsiderable pecuniary risk gave their time and services gratuitously; hence the Government granted certain privileges to these banks and only required that their Articles should be approved by the justices in quarter sessions. In 1828 the sanction of the National Debt commissioners as well as of the justices was required for the formation of the banks, and the certificate of a barrister, appointed for the purpose, that the Articles were legal, was also required. In 1844 the barrister received greater powers, especially in the matter of disputes. Considerable abuses and irregularities came to light, with the result that a commission was appointed in 1858 to examine the facts and to suggest remedies. The chief irregularities seem to have been in the management of the funds, and the enquiry resulted in the Act of 1863 which is still the organic law on the subject.

This Act defines a Trustee Savings bank as above mentioned; the Articles are to be certified by the barrister (Registrar of Friendly societies) and section 6 provides (1) that neither treasurer nor trustees nor managers shall derive any benefit whatever from the funds or receive any salary or allowances; (2) that at least two persons, either trustees or special paid officers, must be present on all occasions of public business and be parties to every pecuniary transaction, whether of payment-in or withdrawal (the "double check" provision); (3) that pass-books shall be compared with the ledger; (4) that payments be received and made only in business hours and at the office; (5) that proper provision be made for audit half-yearly; (6) that a list containing the amount of every depositor's balance be made up each year without names but with the pass-book numbers, certified by the auditor, etc., and made always accessible to all depositors (extracted list of balances). It is further provided that a weekly return of all transactions be sent to the National Debt commissioner; that the staff which deals with money shall give security; that the bank shall have a right of priority over the estate of a deceased or bankrupt officer of the bank for any of the bank's funds held by him; that all money shall be invested in the bank of England in the name of the National Debt commissioner, who shall invest such sums in "Parliamentary securities" only, *i.e.*, Government paper or stock guaranteed by Parliament; that the trustees shall, however, be empowered to invest in other ways, sums expressly deposited for the purpose. Certain privileges in the matter of succession and nomination of legatees are also granted for sums under £100, viz., exemption from the necessity for probate or letters of administration and from stamp duty (*see* Act of 1887, 50 and 51 Vic., Cap. 40). Disputes between the bank and depositors or their representatives must of necessity be referred to the registrar, who shall dispose of such disputes without appeal and who has for that purpose all powers for the inspection of books, etc., and the taking of evidence. A general statement of the affairs of the banks is to be made annually to the National Debt commissioners; the names of any unpunctual banks are to be gazetted, while in the case of negligence or disobedience, the account of the bank with the National Debt commissioners may be closed, which is equivalent to the closure or suspension of the bank itself; the commissioners may also require an annual statement of all expenses incurred by the trustees. The commissioners report to the treasury and also to Parliament every year on the position of the banks.

Under this Act the Savings banks have worked, but, in spite of the provisions of the Act for good management, for audit, for the submission of returns, for the protection of depositors, numerous cases of negligence and fraud occurred; there was nothing to ensure that the balance sheets and returns sent in genuinely represented the state of affairs; there was no control over the audit, the provisions for which were wholly general; the Act was good enough, but the spirit of it was not observed. As a result a number of banks showed gross irregularities, defalcations and frauds: the Parliamentary committee, appointed in 1888, remarked on the Cardiff case, where there were defalcations of £37,000, that "there was gross negligence on the part of the trustees of all the main directions "of the Act of 1863, though the accounts laid before the National Debt commissioners "were in perfect order; it was considered a model bank and there was nothing in the "accounts for ten years past which threw any doubt upon its state"; the directions of the Act with respect to the deposits and withdrawals of money and the check thereon by trustees were habitually disregarded; large sums were received and paid out of office hours and not on the bank premises; the limit of deposits allowed by the Act was exceeded in numerous cases; the audit was of a most perfunctory character, and the pass-books were not compared with the ledgers. It resulted that the actuary (manager) was able to appropriate the funds of the bank by not entering in the ledger the full sums paid by depositors, etc., and these fraudulent transactions were carried on over many years resulting in a loss to the bank of £37,000. These frauds could not have taken place if the trustees had performed the duties prescribed by the Act, or if the audit had been a proper one, or if the pass-books had been even occasionally compared with the ledgers. In another case a junior clerk embezzled about £4,000 during a period of at least seven years by various tricks; "he could not have done this without the greatest negligence and incompetence of "nearly every other person connected with the bank; of the trustees who took no pains "whatever to see that the provisions of the Savings Bank Act were complied with; of the "actuary (manager) who allowed entries to be made in the pass-books without the double "check required by the statute; and of the auditor who appears to have admitted his

" incompetency; the examination of the pass-books with the ledger was entirely dispensed " with."

The result of these and several other bad cases led to the appointment of a select committee in 1888; the evidence taken by them in 1888 and 1889 relates almost entirely to ... checks to be maintained by trustees and others and to the nature of the audit to be required. The conclusion of the enquiry, as gathered from their report, was that though the Act was sufficient if its provisions were thoroughly carried out in a business-like way, the actual administration under the Act was defective; that consequently further supervision, in order to enforce the observation of the requirements of the Act, was necessary if the banks were to do their complete work and if confidence was to be maintained in these useful institutions, and the committee recommended the formation of an independent board of audit which should operate " in such a way as to secure that the Savings Banks Acts are carried " out in every particular, and to secure a continuous audit and a continuous examination " at uncertain times of the pass-books and their comparison with the ledgers; that the board " of audit have authority to move the treasury to appoint a commission under the Act of " 1887 to examine into any bank when it thinks fit." Other recommendations were made, but this was the principal one.

The result was the passing of the Act of 1891, which provides that there shall be an inspection committee, for election to which no paid officer of a Savings bank shall be eligible; this committee, which may receive remuneration, shall appoint inspectors to examine and report upon the books, accounts, and business of the banks and whether the banks are complying with the various laws and rules; the National Debt commissioners can close the account of any bank that is disobedient to orders, or not fulfilling the requirements of the law. The inspection committee, if not satisfied with the provisions for audit, can call on a bank to make proper rules, and in default may themselves make such rules, which, on certification by the registrar, shall be binding on the bank. Trustees not attending to business shall vacate office; the annual statement shall be in the form and accompanied by such particulars as may be required by the National Debt commissioners, and shall also be sent to the inspection committee. The power of trustees in the matter of special investments on behalf of depositors is withheld from future Savings banks, and is subject to certain restrictions in the case of existing banks, both in the amount to be invested (£500) and in the class of securities, viz., trustee securities only exclusive of land mortgages, and the assets of the Savings banks shall not be liable for any expense or loss by these special investments, which moreover are to be subject to a special audit.

The inspection committee was accordingly appointed under a scheme approved by the National Debt commissioners; there are seven members, one appointed by the Bank of England, one by the Council of Chartered accountants, one by the Council of the Incorporated Law Society, and one by the Chief Registrar of Friendly societies; the other three were then selected by the above four from nominations made by the principal Savings banks. The committee must hold at least twelve meetings during the year and every member must attend at least six, failing which, or in case of his imprisonment for any offence, or of his becoming bankrupt or of his entering into any composition or arrangement with creditors, he shall vacate office. The committee reports to the National Debt commissioners who seem to have a general supervision over their work in their capacity as supervisors of Trustee Savings banks: *see* sections 2 to 5 of the Act of 1891.

The committee have already (1893) issued their first report and announce a considerable number of irregularities as discovered from the examination of their thirty-one inspectors who were all men of experience and standing as professional accountants and to whom full instructions were issued; 167 banks were examined, and " the inspection committee " regret to find that in many instances the statutory requirements relative to the conduct and " management of Savings banks have been neglected, either through ignorance of the " law or through general laxity in management. It has been found that some banks ignore " even their own rules." The committee make various suggestions for better administration, greater facilities to depositors, etc., and insist upon the necessity for the "double check" in all matters of payments-in and withdrawals, and of a proper audit, which must include of necessity the continuous examination of the pass-books by the auditor, and their comparison with the ledger. In their circular letter to trustees, dated 19th November 1892, these points, and the necessity for the accessibility to all depositors at all business hours of the half-yearly extracted list of balances as taken from the ledger and certified by the trustees and auditor, are especially dealt with.

It should be noticed that before the Parliamentary committee sat, it occurred to some of the larger Savings banks that an association of the banks for mutual advice, assistance and even for inspection, was advisable " in the interests of depositors," and in 1887 sixty of the banks, possessing about £18.000,000 in deposits, organized themselves accordingly. Their circular of 31st March 1887 invited reports as to (1) whether there was always a second party to every transaction (double check); (2) whether the pass-books were compared with the ledgers, and by whom; (3) whether the audit was made by a chartered accountant, and whether it was independent; (4) how often the trustees met for business; (5) what security was taken from paid officers. The circular of 22nd July 1887 based upon the replies to these queries, deals with all these points in the fullest and most practical way, and their first annual report of 1888 again impresses on banks the absolute importance of *efficient* audit.

Witnesses before the select committee referred to this association, which however is not mentioned in the committee's report: the inspection committee (board of audit) proposed by the committee is similar in aims to that already proposed for a central board to

be formed by the association, and it is presumed that the Committee and Parliament preferred the quasi-official inspection committee, under the general supervision of the National Debt commissioners, to the independent association.

The above sketch shows that even in England, in spite of good laws, of business-like surroundings, of management by honorable and philanthropic men, themselves usually business men, and in spite of vast interests at stake, the administration of the banks is found to require in many cases—by no means in all, especially in the splendid banks of the Glasgow type—more stringent supervision by independent authorities outside the banks themselves, if negligence and fraud are to be eliminated, and that the practical sense of the nation, in spite of its traditional love of independence in business matters, not only permits but requires official and quasi-official supervision *ab extra* where institutions of public benefit, relating especially to the welfare and development of the humbler classes, are concerned.

United States.—The Savings banks of America are deposit and credit institutions of the first importance, though it is to be remembered that many banks are merely 'Savings banks' in name, the comptroller states in the report for 1893 that more than 10 per cent. of the total deposits in joint stock Savings banks are admittedly not savings proper, and that probably the proportion is much larger, as it is known that stock Savings banks in certain States make no classification of deposits, and transact a commercial as well as a Savings banks business.

1.030 banks reported themselves Savings banks to the Comptroller of the Currency, Washington, in 1893; of these 649 were mutual and 381 joint stock; they had total assets of £402,755,030; savings deposits of £357,030,192, capital stock of £6,685,837, reserve of £27,491,223; loans on real estate (mortgages) for £152,715,997 being 38 per cent. of the assets and 42 per cent. of the deposits; loans on other security for £57,038,942, or 14 per cent. and 16 per cent. respectively; paper of the United States, and of individual States, counties and municipalities for £105,643,416 or 26 per cent. of the assets, railway stock for £24,303,814 or 6 per cent., etc. Depositors were 4,830,509 or one in every thirteen of the population with an average of £73-4 each, showing that, even allowing for the difference in the value of money, the Savings banks touch classes much above the corresponding banks in England, where the average in the Trustee Savings banks is about £28. The average of savings deposits for each bank is £346,630, the average of the English Trustee banks being £141,380, but if the 637 mutual banks of the eleven Eastern and Middle States be taken alone, the average is much higher, viz., about £477,000 each. In New York State the reserves amount to more than 12 per cent. of the deposits—a very admirable position.

The points to be noticed in this sketch, however, are not the magnitude, etc , of the deposits, but (1) the mode in which these deposits are employed, (2) the supervision exercised over these wealthy banks by the various Governments.

It will be seen from the statistics above that the Savings banks of the United States invest their funds at pleasure within certain limits; 42 per cent. of the deposits are lent out on mortgages and 16 per cent. in loans on personal and other security, while National and State paper takes less than 30 per cent; even railway bonds absorb almost 7 per cent of the deposits. The New York law of 1892 admits investment in National and State paper and bonds guaranteed by the Government, and in municipal bonds; but railway and bank stock are not admissible investments Loans may be granted upon the report of a special committee, on mortgages of unencumbered real estate up to 65 per cent. of the deposits and up to 50 per cent. of the value of productive property or 40 per cent. of unimproved land; 46 per cent. of the deposits are in fact invested in this manner. Banks may also lend on the deposit of good paper as specified above, up to 90 per cent. of their market value and up to 10 per cent. of their deposits, but loans on personal security including bills of exchange are forbidden. The New York Savings banks may also place up to 10 per cent. of their deposits in current accounts with ordinary banks, provided that the amount deposited with any one bank does not exceed 25 per cent. of the capital and reserve of such bank; they have, moreover, the notable privilege that if the bank holding these deposits in account-current fails, the Savings banks have a *first* claim, before all other creditors, for the whole amount of their deposits, if such banks are State banks, and also—with certain exceptions—if they are private banks.

The laws of other States are not so restrictive, as shown by the preceding figures for the 1,030 Savings banks; in some, up to a third of the deposits may be lent on personal security with two sureties.

In Massachusetts, the law, as amended up to 1892, is as follows for the investment of deposits; investments in National paper and that of certain States, of counties or cities, local boards and others, may be unlimited; so also in the first mortgage bonds (debentures) of various railways; stock of certain banks up to 35 per cent. of the deposits; in first mortgages on real estate up to 60 per cent. of the value of the property is estimated by the board of investment, and up to 75 per cent. of the total deposits; loans on personal security for not more than one year with two sureties up to one-third of the deposits, provided that not more than 5 per cent. of the deposits shall be lent to a single person, firm or corporation; loans to any amount on the deposit of public bonds and rail road stock and upto 35 per cent. on bank stock; and loans to depositors up to half the deposit amount, on pledge of the pass-book. Savings banks may also deposit with any incorporated bank or National bank and certain trust companies up to 5 per cent. of the deposits, but not

exceeding with any one bank an amount equal to 25 per cent of the capital and reserve of that bank. No loans, however, may be granted to any president, treasurer, member of committee or of the board of investment, or to any officer charged with investing the funds of the Savings bank, nor upon the security of any such person.

In Rhode Island State, investments may be in public stocks, or in any bank or corporation stock that may be deemed safe and secure, or in discounting notes, bills or drafts of persons or corporations with two other responsible endorsers or sureties, or in mortgage on real estate, or in loans on deposit of stock. Not more than half the deposits must be lent on the notes, etc., of individuals or corporations, nor shall any money be lent to any trustee, director or officer of the bank. The law of this State seems altogether too liberal in its provisions regarding investments. It appears to follow the original idea of some States in 1816, viz., to leave to trustees the choice of investments, relying on their care and prudence; other States more wisely limited the investment to investments of repute, expressly specified in the law and in the Articles of each bank.

The second point is the supervision exercised over the banks by Government.

The figures given above for 1,030 banks are taken from the annual report of the Comptroller of Currency, who appears to obtain the figures from the various State Governments. This report is a mere addendum to the Comptroller's report on National banks, and the Comptroller, while giving much useful information, does not appear to have any authority even to mak suggestions on the subject. But it is quite otherwise with the respective State Governments, who, throughout the United States, possess a power and exercise an amount of supervision altogether surprising, the more so when the generally independent character of business in the United States, the intelligence and character of the American people, and the general publicity of American business life, are considered.

In the first place each State has its own law, which, as in New York, generally provides minutely for the methods of incorporation, for the powers and disabilities of trustees for the class of securities in which deposits may be invested, for the restricting of Savings banks from trading and from commercial banking, for the rate of interest on deposits, for the formation of a substantial reserve (15 per cent of deposits in New York), for any privileges, for the powers of Government officers in the way of supervision and inspection, for dissolution, etc. The existence of such a law is in itself a form of supervision, but the particular supervision expressly imposed by the law is generally remarkable.

In New York State the law of 1892 amending that of 1875, confides the supervision of the Savings banks to the Superintendent of banks, a high functionary appointed by the Governor, whose special duty it is to control and supervise all banking and deposit companies. When it is intended to start a Savings bank, public notice must be given by the proposed trustees (at least 13) in the newspapers, a notice must be sent to the superintendent, and a copy to every existing Savings bank in the county. The superintendent then ascertains whether the proposed bank is necessary; whether there is a sufficient population in its sphere of business to ensure support, whether the members (trustees) are persons likely to inspire confidence, etc.; if he is not satisfied that the bank is likely to be of public benefit he can refuse his consent. From the existing banks the superintendent receives each half year a full report of the affairs of the banks based upon a special half-yearly examination of affairs by a committee of the trustees and containing full details of all investments and their value, of all liabilities, and in particular, full details as regards deposits; heavy penalties are prescribed, for delay or failure to report. He must inspect each bank either personally or by his expert examiners at least once in two years, and oftener if he pleases. In such examination enquiry must be made as to the condition and resources of the bank, its mode of conducting its affairs, the action of its directors, its investments, the safety and prudence of its management, the security it offers to its depositors, etc., its conformity or otherwise with the law and rules of the society, and any other matters that require investigation. It is his duty to fix the valuation of all stocks, bonds, mortgages, etc., held by the bank, which have been in arrears of interest for six months or more. In case of any irregularities which violate the law or are dangerous to safety, he can proceed in Court through the Attorney-General, for the dismissal of the trustees, or for such other measure as may be desirable. Every Savings bank has to contribute annually towards the cost of the superintendent and his office; this being paid, there is no charge for the actual examinations.

In Massachusetts the Governor appoints and pays a board of three commissioners of Savings banks; these commissioners must visit once a year, and as much oftener as they please, every bank; in such examinations they have the fullest powers of enquiry and examination of affairs, accounts and persons and must preserve a permanent record of such enquiry; in case *five* officers, trustees, creditors, or depositors make a verified request, with reasons, for examination, the commissioners shall at once proceed to such examination. In case the bank is found to be in a dangerous position, or if it is acting irregularly or illegally, the commissioners may apply to the Supreme Court for an injunction, and the Court may take such steps as may be necessary; if the commissioners find any violation of the law by any officer or trustee, they may move the Attorney-General to prosecute for the same. The general Court (State legislature) may alter the powers granted to any Savings bank corporation or may take them away, and it has powers also to cause of its own motion a complete examination of the affairs of any bank by a special committee; any person refusing or neglecting to show the books, etc., to such committee may be fined up to £2,000

or imprisoned up to three years. The commissioners may prescribe the manner and power of keeping and auditing the books and accounts of any bank.

Once a year the treasurer must report to the commissioners the position of the bank in such form as may be prescribed by them, but the report must specify the name and location of the bank, the amount of deposits, and of all other liabilities; investments in public funds specifying each class the amount invested in each class, etc.; loans on similar paper; bank stock with all details; loans on bank stock; railway debentures with all details; loans thereon; value of real estate owned; mortgage loans; details of all other classes of loans; cash in hand and deposits in banks with name of each bank; total profits and rate of dividend; rates of interest received on all classes of loans; amount on loan at each rate of interest; number and value of loans below £600; number of accounts; number and amount of deposits; number and amount of withdrawals; number of accounts opened and number closed in the year, and the expenses for the year; the whole under the oath of the treasurer and certified, also under oath, by the president and five trustees, that the report is correct to the best of their knowledge. Every bank must now state, in addition, the number and amount of deposits divided into various classes according to amount and beginning with those under £10. In another law it is provided that at least once in each year an " accurate trial balance " (audit or comparison) shall be made of its " depositors' ledgers " presumably with the pass-books. Such are the legal provisions in Massachusetts as made up to 1892.

In Rhode Island State the Governor appoints three commissioners to superintend the formation of any banks, whether savings or ordinary; these are paid by the bank and supervise the whole organization, including the apportionment of stock to subscribers, until the full capital is subscribed and paid up. After the bank is at work, the general assembly of the State, or the governor, when the assembly is not in session, may at any time, appoint a special commission for the examination of any bank to see if it is legally conducted and to ascertain its position; the commission has all powers of inspection and enquiry. The Governor is obliged also to issue a similar commission if any *three* persons being officers, shareholders, or creditors, request him in writing with reasons to institute an examination. The commissioners report to the general assembly, and may also complain to the Supreme Court with a view to the closing of the bank, if it is being conducted in such a way as to cause danger of loss or fraud; the Court, on hearing both parties may make such order as is necessary, and may appoint a receiver to wind up the bank. Every bank must make an annual verified report to the State auditor (Accountant-General) giving particulars similar to those required in Massachusetts; the State auditor reports upon the subject, and sends copies to various high functionaries. The above provision apply to Savings banks as well as to other banks.

In Illinois (Chicago) under the law of 1887 no bank of any sort can be started without the authorization of the State auditor; this officer must call for reports from each bank at least once in a quarter; such reports to be in a form prescribed by the auditor, and to show the whole position of the bank on any day that the auditor chooses to mention in his call; each report is published in the newspapers at the expense of the bank. The auditor also appoints examiners, not being shareholders, officers or employes of the bank to be examined; these examiners must make a thorough inspection of all the affairs of every bank at least once in a year, and as much oftener as the auditor thinks necessary; they have full powers of enquiry, and report to the auditor; the examiners are paid by the banks on a prescribed scale, viz., £2 per day and travelling expenses. The auditor has further powers and duties when banks close up their business, and is entitled to remuneration for the same.

The above is the general banking law of 1887 for joint stock banks and appears to cover Savings banks also since it applies to all companies formed for discount " and deposit," and lending money on real and personal security. California and other States have similar provisions; it will be seen then that the several States unite in providing very stringent supervision.

Denmark.—A note on a recent law (1880) will be interesting to emphasize once more the necessity found by all nations for a careful supervision of Savings banks and similar popular institutions of thrift and credit. On March 31st, 1890, there were 541 Savings banks for his little kingdom of 2,097,000 inhabitants, or one for every 3,876 persons; of these 148 were in the towns and 393 were scattered over the country side . Deposits were £27,832,000 or £13-15 per head of population, an immense average, due partly to the fact that many banks taking savings deposits, are ordinary deposit and lending banks. These banks have the free employment of their funds, but details are not known except for single banks, in which mortgages, loans to communes, debentures of mortgage banks, are considerable features. As in Europe generally, and in Italy especially, the Danish Savings banks give largely of their profits to institutions of benevolence and public utility; M. Rostand gives a list of 68 such institutions assisted in 1890 with £1,760 by a single Savings bank in Copenhagen; such were hospitals, schools, asylums, etc.

The law of 1880 provides that the Minister of the Home Department, under whose general supervision the banks are placed, shall appoint a special Savings bank inspector who shall examine the articles and balance sheets as obligatorily communicated to him by the banks. The balance sheets are to be in a form prescribed by the Minister, and rules are laid down for the careful valuation of the several items of the assets. The balance sheet is to be tested by auditors who are not directors or appointed by directors; the audit is to comprise a complete examination of the affairs of the bank. When the

bank has a committee of supervision the auditor's report must be passed by them; in other cases, or when the committee desire it, the Government Inspector shall verify it. In case of any dispute on the subject of the balance sheet between the directors and the auditors, the committee or the inspector, the matter may be referred by the Minister to arbitration, in which case the Minister appoints three arbitrators and the directorate two others to be selected from the presidents of other Savings banks. Their award is to be final; the expenses are fixed by the Minister and paid in the first instance by Government, subject to recovery from the directors if the verdict is against them. Any person proved by such decision to be injured may file his suit for damages in the ordinary Courts through the Government inspector.

The inspector can also carry out a local enquiry where the certified balance sheet has not been sent in.

The inspector reports annually to the Minister. In case a Savings bank has lost its reserve and a sum equal to 5 per cent. of its deposits, the inspector may proceed to suspend the bank's operations, unless the directorate offer a sufficient guarantee for the recoupment of the deficit. Such loss or deficit must be reported by the directors to the inspector as soon as discovered on penalty of fine. If the directorate deny such deficit the inspector must bring the matter before arbitrators as above. During suspension or in case of liquidation, the affairs of the bank shall be entrusted to a Royal Commissioner nominated by the Minister of Justice.

The Minister of the Home Department may, on the application of the inspector, impose a daily or weekly fine on directors or auditors who do not carry out the rules, or the orders imposed upon them by any valid decision; such fines may be recovered by attachment, and cannot be charged to the bank.

Summary.—It will be seen that Savings banks, though not credit banks, have a very important *role* to fill in the matter of credit. The Savings banks systems of all countries, except France and England, have developed an immense extension of popular credit, since the excellent arrangements made for small deposits have attracted immense funds which need investment. These institutions in the United States, Switzerland, Germany, Austria-Hungary and Italy, are all "local banks with free employment of their funds," (the word "free" being understood, as in all true freedom, with certain restrictive limits); the result of localization and freedom has been the attraction to Savings banks in the above countries of about £700,000,000, of which about £330,000,000 has been lent on mortgages of real estate, about one-half, or say, £160,000,000, being invested in rural loans, of moderate and even small amount and up to 30 years in duration. Not only so, but immense sums have been granted on loans on personal security for terms up to one year, and other large sums to public institutions, local boards and the like, for works of public utility; railways have been financed in America to the amount of scores of millions sterling by the funds of these banks, and — more legitimately it would seem—very large sums have been advanced in Europe indirectly to the "small folk" through loans to Popular banks and small credit societies, and by the discount or re-discount of the bills of such societies.

All this work has been done by Savings banks proper and with hardly appreciable loss, owing not merely to good regulations but to prudence in business and to the public spirit of trustees and others; the object of Savings banks proper not being dividends, but simply the benefit of depositors chiefly through the safety rather than the fruitfulness of their deposits, they seldom fail, and when they fail it is seldom with disaster. But the sketch given in the preceding pages shows equally, and probably unexpectedly, that to restricted area, good regulations, and prudent business, there is universally added what is partly the cause of their good qualities, viz., an extremely watchful external supervision, generally official. It is strange to note that in England and in America where freedom in business is so striking a characteristic, so dominant a demand, there is an amount of supervision which almost amounts to control; much greater in fact than in the countries of Continental Europe. Both in England and America experience and common public sense teach that matters of vital national importance affecting the moral and material development of the smaller folk, cannot be left to themselves, at all events where the receipt, custody and use of money are concerned; not only so, but each decade seems to develop such supervision till it results in the inspection committee of England, and the State commissioners, with their immense powers, of New York and Massachusetts.

The explanation is simple; freedom which allows one to injure another is not freedom but license; a Society may be free, and take away by a ruinous failure the independence of thousands. Government, at least as regards the mass of small folk, does not promote freedom by leaving everything free, *en champ ouvert*, but by taking precautions that all, especially the small folk, shall have an equal chance of reaching independence.

It is to be added that in Europe and America, public spirit and philanthropic effort within the banks are conspicuous; the trustees of the British and American banks, the communal councils of Germany and France, the honourable men (benemeriti cittadini) and directors of benevolent institutions in Italy, are all, in varying degrees, actuated by public spirited unselfishness, a desire to promote thrift and providence among the poor even at some risk and much certain, yet wholly unremunerated, labour to themselves. In none of these cases do the founders, promoters or managers (trustees, etc.), receive any remuneration; such recompense is, in fact, in England, America, France, Italy, expressly refused by law and by the articles of the banks, and while this fact leads to the necessity for some external supervision, since rogues and incapables will sometimes assume the

guise of philanthropists and business men, there is no doubt but that much of the success of the banks is due to the example and self-denial of honourable men.

Localization, free employment of funds, extreme watchfulness from without over the safety of all operations, and public spirit and unselfishness within, seem to be the chief features of Savings bank work in the above countries of Europe and America, and to demand ample study by Indian economists.

CHAPTER VIII.—AGRICULTURAL ASSOCIATIONS.

An account is given of Agricultural associations not merely because of the direct development through their agency of agricultural credit in France, as at Poligny, but because the true development of that credit in India may well be promoted by some such associations. Existing ideas of association and co-operation are developed in a wonderful degree by these means, and when ryots are accustomed to combine together for agricultural purposes, association for purposes of credit will soon follow. Moreover, it is only by associations that agriculture will attain a rapid and thorough progress; a score of united men will go further in five years than a thousand isolated units in a generation, and with such development must arise the demand for capital on proper terms. The opinion is hazarded that the Department of Agriculture should lend its efforts very specially towards the promotion, directly and indirectly, of Agricultural associations. Signor Luzzatti considers that Agricultural associations and Popular banks are complementary and should develop side by side; the association awakens and strengthens in the cultivator the desire to improve his cultivation and develop his land; the Popular bank provides on the best terms the means for such developments, and may even devote part of its profits to assist experiments in the direction indicated by the association. The association again assists the bank not merely by providing a clientèle but by indicating to its members operations in which credit will be useful, and those in which it would be useless or harmful.

The Agricultural associations (Syndicats Agricoles) of France will first be described, as being systematic and complete in form and aim; a notice of similar Belgian associations will follow, and be succeeded by a sketch of the German Bauernvereine if materials are obtained in time. It should be premised that the class of association to be described is not the mere agricultural society usually contemplated, whether the Agricultural societies of England, the Comices Agricoles of France, the Landwirthschaftliche Vereine of Germany, or the abortive Madras associations; they are rather Farmers' or Peasants' Unions (alliances, guilds, etc.), and aim at much more than the improvement of agricultural methods; they aim rather at obtaining a corporate existence for groups of peasantry, as well as the development of their material, mental and moral welfare through co-operative effort and self-help. In most cases they are of more recent formation than the Agricultural Societies or Chambers which have existed for many years in France, and since 1809 in Germany, with however no great result as regards agriculture and the agriculturist. The Unions to be described appear to supply that co-ordinating influence, furnished *ab extra* yet exerted within the people themselves and their immediate neighbourhood, which alone will unite the individual and isolated cells into an organism. It is in this direction that the possibilities of true progress appear; not so much in the positive action of Government as in placing the people in vivifying environment, by a careful stimulation of the ideas and facts of a local life and organization. This will be further adverted to in discussing methods for this Presidency.

FRANCE.—By a law of 1791, the ancient industrial and professional guilds were forcibly abolished, and their resuscitation under any form, or even the meeting of members of the same business or profession for formal deliberation or for the passing of resolutions on their common interests, was absolutely prohibited under penalty of prosecution. In view of the abuses to which close guilds had led, to their assumption of a monopoly, to their check upon the spirit of invention, and to the frequent quarrels between them, the free exercise by any individual of any industry or profession was declared to be one of the foundation stones of the Constitution. While thus legislating for liberty, the Constitution denied liberty, viz., that of associating for common progress. Gradually, certain forms of association were tacitly permitted, though against the law, but it was not till 1884 that unions of men of the same industry could unite in corporations for the protection and advancement of their common interests in such industries.

In that year, a brief law (*see* another Appendix) was passed; the original draft contemplated only industries, professions and trades as distinguished from agriculture which was absolutely ignored; the Bill had been discussed in the Lower House, and was being debated for the second time in the Senate, when a member proposed the addition of the word "agricole" in section 3. This was agreed to, and thus, by a casual and almost accidental addition, the formation of Agricultural associations, forbidden up to that time, except of late years solely for irrigational purposes and against the phylloxera, was formally admitted.

Within six years, no less than 910 of these associations, with about 600,000 members, were in operation, and many of them were grouped into Unions. The numbers annually increase, and, in 1893, it was estimated that the recorded number of 1,100 was much below the actuals. It has been ascertained that the associations are most numerous, though naturally, not the most powerful, where "*la petite culture*" prevails, and their success will probably be measured by their ability to unite and benefit the small cultivators. The law, however, would have remained a dead letter, unknown to the people,

but for a few eminent men who devoted themselves to agitating the subject, started societies, lectured, encouraged and drove public opinion into successful action; the best farmers of a Canton (group of villages) were induced to unite and subscribe the statutes, ready framed according to the necessities of the place; these again were grouped by taluks, and these into a district union; or it might be that the district association was formed first and developed smaller association by its example and precept. It is to this personal devotion that the extraordinary development of associations is due; for useful as they are, their usefulness would not have become patent to all but for these men.

The associations are solely for economic and social purposes; all political and religious tendencies or aims are strictly prohibited. Their objects, as abstracted from the various statutes, are as follows:—

(1) Study and defence of common interests.

(2) Suppression of middlemen, whether for the purchase or sale of goods, and purchase by wholesale, etc.

(3) Agricultural mutual credit.

(4) Arbitration.

(5) Mutual assurance against the effects of hail and cattle disease.

(6) Provident and friendly purposes.

(7) The progress of agriculture.

It will be seen from this (vide also statutes in another Appendix) that the associations are not mere commercial societies, providing only for the mutual benefit of their members in buying cheap and selling dear; nor are they statistical and consultative chambers, still less mere debating societies such as Agricultural associations are apt to become unless their members are practical agriculturists and business men, really cognisant of agricultural needs and of agricultural hindrances. The " progress of agriculture " is a very fine subject for lectures and articles, but the cultivators want a tangible presentation of progress if only on a single point. Hence the Syndicates desire the assciation of agriculturists, and with it all the material and moral benefits to be derived from it, the concentration of local forces and knowledge, encouragement in experiment and attempts to depart from routine, the accumulation of information for their members and for presentation to the authorities in view of their own interests, the disposal by arbitration of disputes among their members, the benefits of cheap and genuine goods or stock, and of proper prices; these are tangible or readily intelligible benefits. It will be seen that if these aims are carried out, the associations form a high expression of the co-operative idea; the material, intellectual and moral position of the members must alike be benefited, and that not by some external *vis medicatrix*, but by their own inherent, if dormant powers, stimulated by association.

The immediate success of the associations, once formed, is however doubtless due to their operations under head 2. By combining the orders of their members, an association can not only purchase manures, seeds, etc., at wholesale prices, often 30 per cent below retail prices, but—which is even more important—can ensure the goods being genuine, and up to sample, thus avoiding the scandals and frauds which have so often set farmers against scientific suggestions, such as phosphates with 80 per cent of sand and clay, animal black which is only powdered coal, etc. The mere fact of the existence of an association has often sent down prices of such goods more than 20 per cent in the enighbourhood. Similarly the produce of the several members is placed direct on the market without the intervention of a series of brokers, such as are necessary in the cotton tracts of this Presidency, where there is, as yet, no such thing as an association though association has always been wholly free.

The transactions of the associations in buying and selling are already estimated in tens of millions sterling, and the direct profits in millions.

The question of agricultural credit as provided by annexes to these associations has been mentioned above, *s.v.*, ' Popular banks, France,' and discussion of the other objects would perhaps be out of place.

A translation of the model stautes given as a ground-work on which associations may found their own statutes, will be found in another Appendix.

There are also two species of Unions in addition to the local groups. One is the ' Union des Syndicats des Agriculteurs de France,' the other the ' Syndicat Central.' The former aims at grouping all Syndicates into one grand union " for the study and defence of economic agricultural interests," and especially to serve them as a permanent centre of information on markets, produce, etc.; to encourage the formation of new Syndicates; to collect and distribute all information as to harvests, etc.; to advise societies and their members on all matters of doubt or dispute relating to agriculture; to facilitate analysis at the Laboratory of the ' Societe des Agriculteurs de France.' Since its foundation it has dealt also with questions of customs, of railway tariffs, of sugar duties, of the repression of fraud generally of the improvement of the butter trade, of the suppression of vagabondage in the rural tracts, etc. Though founded only in 1836, it had, in 1890, secured the adhesion of 357 of the largest associations.

The ' Syndicat Central ' has, as its general objects, the study and defence of agricultural interests, and especially (1) to favour the sale of produce, establish a centre for samples, etc., (2) to centralize the orders for implements, manures, seeds, animals, etc., so as to secure for its members or for Agricultural associations the benefit of the best goods at the cheapest rates; (3) to ensure the genuineness of supplies; (4) to provide information, plans, etc., on all sorts of agricultural subjects.

The statutes of these two central societies are translated in another Appendix. In them, as in most, if not all, of the Agricultural associations, the directorate or administration is absolutely gratuitous, only clerks and such like being paid.

These Agricultural associations are encouraged by Government, which has ordered its departmental prefects to interest themselves to the utmost in the matter, to encourage and advise the societies, and to work with them. But the success of the associations is due (1) to their supplying a distance need; (2) to the initiative of a very few energetic men who put into practical shape the ideas formulated in the law.

The " Farmers' alliances " of the United States resemble the French associations in their aims, methods and functions.

* BELGIUM.—In Europe, the agricultural crisis is severe; the pressure of population and of foreign competition renders it necessary to cultivate as thoroughly as science and art can devise, and yet as cheaply as good business arrangements can secure. All sorts of panaceas have been proposed, but the only available one is that which is never tried yet is actually in hand, viz., self-help. The difficulty is how this remedy is to be developed and supplied; the cultivator is in need of capital, of experience, of initiative, of self-reliance; the more intelligent or richer proprietors stand afar off. It is then in the association of the various classes that the true agricultural remedy to be found; one remedy diverse applications, viz., the supply of credit, the development of knowledge, the stimulation towards new departures, the *reapproachment* of classes, the education in wider ideas and in business-like habits. The Westphalia (Germany) Peasants association expresses the idea sufficiently well in its statutes; their object is so to unite the peasants in an association as (*a*) to elevate the moral intellectual and material level of its members, (*b*) to group them into a solid and strong phalanx, (*c*) to establish the stability of agriculture. The associations are to be more than mere agricultural societies dealing simply with agricultural improvements and methods; on the other hand they are not to be mere petty commercial societies for the purchase and sale of manures, seeds, implements, etc. They are to be associations for the better study of all common interests; for the concentration of local energy and intelligence, for the stimulation of all modes of progress, experimental, educational, practical; for the introduction of co-operative methods whether of the purchase and sale of produce and matters of consumption and production, or of credit; for the examination of difficulties whether agricultural, fiscal or administrative, and for representation of such difficulties and of other information to the proper quarter; for the carrying out of works of improvement requiring joint action.

Many of these aims are for the future, and the programme, however, pleasing to the theorist or advanced student of social progress, will have no attraction for the peasant unless he can see or feel some immediate tangible profit. The result is that, without exception, these associations have, at first, and mainly, devoted themselves to buying and selling for the profit of the members. To do this, they have adopted the form of co-operative societies under the Belgian law, and either deal direct with wholesale merchants for the sale of produce or for purchase of agricultural requirements, or, in order to avoid local hostility, through some local tradesman. It is necessary, however, to restrict operations to members, so as, on the one hand, to give membership a real value and thus attract men to the society, and on the other to restrain the desire of obtaining profitable dividends which is apt to lead to oblivion of the true objects of such an association, and make it a mere trading company.

The next object which an association may take up is the development of agricultural credit " which in Belgium, remains a mere project." For this purpose the own capital of the society cannot be used, as it is needed for its business dealings, and it is advisable therefore to stimulate the establishment of societies of mutual credit, side by side with themselves and in union with them but having a separate existence.

The remaining aims of the associations are those higher aims above noticed; these are not yet developed, as the associations are of recent origin. In Germany, however, the ' Bauernvereine ' actually carry out, more or less perfectly, the programme put forward, including legal advice in matters of common interest, and even the payment of legal expenses for the discussion and, if necessary, judicial, etc., decision of matters involving principles and requiring settlement; the establishment of arbitration courts, to which all members bind themselves to resort in the first instance; the preparation and submission of petitions to the authorities on grievances or other matters involving protection to rural interests (*see* below *s.v.* ' Agricultural associations, Germany ').

In establishing the associations subscribed shares are invariable; these may be founders' shares, honorary shares, or ordinary shares. The first are usually from £8 to £20, and the shareholders agree to remain during the currency (thirty years at most) of the society; in some places, tenants of foundation share-holders are admitted as quasi-members without payment of shares. Honorary shares are those subscribed out of pure benevolence, and are not recommended; the associations should be on a business and not a charitable footing. Ordinary shares are of variable amount, usually at the rate of so much per hectare ($2\frac{1}{2}$ acres) per annum, and hold good for five years only, when a member may withdraw, taking with him the amounts he may have subscribed; during membership the share bears interest or draws profits. Not only are share subscriptions

* Chiefly from an article by M. Francotte in ' La Reforme Sociale,' 1888.

necessary for the work of the association, but they are found to promote an active interest in the society. Occasionally a retiring members does not withdraw his share values; in this case, there is no real loss to him, for it means cheaper supplies.

The societies have the usual administrative organs, viz., a directorate, a committee of supervision and a manager. In many associations the above functions are gratuitous; in some the administration obtain honoraria. On the activity, zeal and capacity of the manager largely depends the success of the association.

The above associations are still in their infancy, only one having been founded before 1885; it is, then, too early to discuss results.

GERMANY.—Bavaria and Würtemberg are perhaps the most advanced countries of Germany in respect of Peasants' associations, which are of some standing and similar in aim to the French Syndicates. Usually, however, they are societies restricted to a single commune, and with objects narrowed in practice to the provision of good stud cattle, of costly agricultural machines, &c., and perhaps, to the execution of some work of common utility. Latterly, however, they have adopted larger views and a wider scope, as in the case of France.

The following account is drawn from a description given by the Count de Loë to the Congress " Des Œuvres Sociales " at Liege in 1886. The " Bauernverein " is that of the Rhine Province, and is similar in rules to that of Westphalia. At that time it had been only four years in existence, but numbered 25,000 members; one of its special duties was that of encouraging the growth of small local societies for assurance against cattle-disease, the establishment of Savings banks, and of Loan societies after the Raiffeisen pattern. It will be noticed that this reverses the gener.l German mode in which the small credit, &c., societies are first established locally, and then federate themselves into a Union and establish a Central society; as also in France in the case of the Agricultural associations. Again, the association had established a laboratory for the testing of chemical manures, &c., and had entered into contracts with firms for the supply of good manures which were tested gratuitously at this laboratory, and then issued to members. Various studies and experiments were set on foot in matters of cultivation, and favourable terms of assurance were obtained for members of the association against hail and fire.

The association also assists its members in legal matters, especially against usurers and cattle-dealers and in matters of general agricultural importance; several hundred cases have already received their aid. Arbitration has been especially introduced, and, in some cases, the members have bound themselves to resort to arbitration before resorting to the Courts in their disputes with one another, and this plan is spreading.

But the association regards the modification of the system of rural credit as essential. The existing system—if it can be so called—is most injurious, not only by reason of the high rate of interest, but because of the demand for the return in lump of the borrowed capital. The association is bending its efforts towards a reduction of the interest, and towards the introduction of repayment by amortization. It claims already to have induced the local Land bank to lend at 4 per cent., the money being repayable by annuity. It now aims at inducing the bank to develop its credit operations, and to enter into direct relationship with the petty rural banks which grant personal credit to the peasants. These petty Communal banks succeed because they have immediate local knowledge of every person in the neighbourhood. Not one has ever yet failed and they have driven out the usurer in their neighbourhood; but apparently the support of a large bank, which will supply them with larger funds by loans or by re-discounting their bills, is advisable.

The annual subscription of each member is 1 mark (say 8 annas). The Provincial Government gives a small subsidy of £210 per annum for the laboratory and special which is supplied gratuitously to all members, the advertisements of seed and manure donations for special studies or experiments . The association publishes a monthly journal merchants, etc., providing the cost of publication and supply.

It will be seen that the improvement or development of rural credit is one of the chief objects of the associations in France and Germany, and that each country is attempting the solution in its own way.

ITALY.—Italy has long possessed numerous small societies for dairy purposes, but since 1889 the Italian Agricultural department has encouraged the formation of societies similar to the French Syndicates by the grant of subventions and by co-operation. The action of the Hungarian Government has been similar.

CHAPTER IX.—GENERAL RESUME.

It will be well to bring together the facts of the preceding study for a few typical countries only.

France has one great Land Mortgage bank with operations extending by seventy-three agencies throughout the country; it has no Popular banks to speak of and no system of Credit Agricole except a new law passed in November 1894: it has, however, about 1,200 new Agricultural associations since 1884, some of which have formed credit annexes, and which it is proposed to utilize as intermediaries between a new Central Agricultural bank and the peasantry. Rural credit is partly through local banks, but chiefly by private lenders, and usury is both general and severe. Organized rural credit is yet in the future for France. She has numerous Benefit and Co-operative societies, all the product of private and philanthropic initiative; its Monts de Piete are organized by law and are quasi-State institutions; she has 547 Savings banks with 987 branches amongst 36,144 communes, and the savings

accumulated are immense, but are all drawn into the State coffers. Insurance societies, which of course lend their funds on mortgage, are also numerous, and tend to protect the peasant against losses by fire, hail, cattle disease, phylloxera, etc.

Germany apeals more strongly to Indian study in the matter of organized credit: the first Land Mortgage bank was founded in 1769 in Silesia by the simple fiat of Frederick the Great, since which time these banks have largely developed. On an area and with a population not much greater than that of Madras, Germany has now some sixty Land Mortgage banks partly mutual (Landschaften), partly joint stock; Real credit is also extended to the people by Provincial Hülfskassen, by the very numerous Insurance societies, by church and other funds, but especially by the Savings banks, yet though immense amounts of money are thus lent, little reaches the small and very small peasant, the "kleine Leute," of the law of 1836, *i.e.*, those holding below about 15 to 18 acres; for them the usurer is the only resource, and his operations are such as to constitute a social danger, to require special usury laws, and to be the subject of numerous anxious debates in Parliament, in economic circles, and in the public press. The agricultural mortgage debt appears to be about £600,000,000—in Prussia alone it is £500,000,000—is exceedingly oppressive and is rapidly increasing. There are in Prussia 1,393 Savings banks with 526 branches and 1,621 collecting offices for 54,903 villages and 29,955,281 people; these are not State institutions and are organized under the system of free disposal of their funds; they consequently lend above half their deposits on mortgages, and about one-half of these are rural.

But it is in the co-operative institutions that Germany is most noteworthy; there are about 6,000 societies varying from forty-five to one or two years' standing; of these about three-fourths are Mutual Credit societies, having about 1,500,000 members, and granting in loans, usually in personal security only, perhaps £150,000,000 per annum. At least 2,000 of these are purely rural (Raiffeisen) situated each in a single village, granting loans of considerable term, but of small amount, almost solely to agriculturists; the remainder are of the Schulze-Delitzsch pattern, distributing immensely greater credit to a different and only partly agricultural clientele, but on short terms only. These various banks act also as Savings banks, and assist thrift even more completely than the Savings banks. Even so, however, the mass of the people have yet to be reached even by these societies. For instance, Raiffeisen limits each of his banks to a single village of not less than 400 or more than 2,000 people; since 27,680,000 people (56 per cent of the population of Germany) live in villages of less than 2,000 inhabitants, it is clear that at one bank for 1,200 persons above 23,000 rural banks are necessary.

There are in addition numerous Agricultural societies, Irrigation, Drainage and Reclamation associations, many of them compulsory. Nor must the Land Improvement and the Rent Charge banks be forgotten, though the former are but three and of little importance, and the latter are merely special and transitory banks, founded to fill a temporary necessity. For all these institutions except Savings banks, there are very complete laws in the greatest possible detail: that for Savings banks (Prussia) is antiquated (1838), but apparently sufficient.

Italy is also specially interesting on account of its political and social history. Its Real Credit banks are of little use to the masses in spite of frequent changes in the law and attempted encouragements; the loans are to no great amount and are all of very large size; in all there are now nine Land Mortgage banks, including the new Central National Land bank. Usury in this country is a terrible and ancient scourge, taxation is severe, and the peasant generally a tenant or a metayer; for these latter of course Real credit cannot, and for the small peasant population it does not ordinarily exist, except in the private bank or money-lender. But in this poor country the system of Co-operative Popular banks has, in only thirty years, attained an immense development: there are perhaps 900 of these institutions (system Luzzatti) distributing annually above £60,000,000 in loans of short term, usually by three months' bills with renewals; these are scattered throughout the country and are very numerous even in the agricultural south; the proportion of agricultural members is, however, on the whole, only about one-third. There are also about seventy rural banks (system Wollemborg) of the Raiffeisen pattern, each in a single village, and working most marvellous results each in its own small but beneficient way; in these and the Popular banks lie great possibilities for Italy as in the parallel cases in Germany from which Italy adapted these institutions. There are also 393 Savings banks which, as in Germany, are not State institutions, but are founded by private persons or public corporations under the system of free disposal of funds; these are doing splendid work both in the matter of thrift and credit. There are also Agricultural associations, of which, however, little is known for this study. But the Monti Pie including the Monti Frumentarii, distribute a cheap and useful credit; the former lend cash on pledge, the latter grain on ordinary security, and receive these loans again in kind. There is also a great number of Opere Pie or Beneficient societies, many being ancient charitable foundations, the rest modern Benefit societies. The laws regulating Opere Pie and Co-operative societies are extremely full and copious.

Great Britain is remarkable in its own way. It has few Land Credit banks proper, though numerous societies exist for granting mortgage loans whether in England or America. There are few Land Improvement Loan societies, and Land Mortgage societies operating under th special Land Mortgage Debenture Act. But there is no organization of banks solely for Real credit comparable with that in Continental Europe, such

credit being granted by ordinary banks, and, especially, by private lenders, Insurance societies, etc. Great Britain is remarkable rather for its societies under the Friendly, Co-operative, Building Societies and Trustee Savings Banks Acts. The enormous organizations called Friendly societies do not strictly come within the purview of this study, though they grant small credit in a limited fashion, but as examples of mutual seaf-help they are among the most striking in the world, having millions of members whom they assist in sickness, misfortune, and bereavement. The Co-operative societies are usually those for the distribution of goods, and credit is practically not an object of their existence; it is in their stimulative and educative power that they are examples for India. The Building societies, however, are of extreme interest to this study, for it is on the model of these societies that the actually existing Madras loan funds have based their operations. These societies under the Act of 1874 alone, are about 2,632 in number, of which 2,262 had £50,000,000 in assets, an annual income of £18,610,000 and 563,933 members; they are the Real Credit societies of the poorer classes, and not merely assist such persons to become owners of houses, but grant advances on mortgages of such property: as such they are of extreme value whether to investing or to borrowing members. The loan societies under the special Acts of 1840 and 1943 of England and Ireland are of little importance. The Trustee Savings banks are magnificent institutions as examlpes of philamthrophic action and gratuitous energy, and have, during their century of operation, done absolutely incalculable good in promoting thrift and prudence. They are obliged, however, by law to send all their funds to the Treasury, and thus miss one grand possibility of their existence, viz., the fructification of their deposits *in situ*.

The United States have magnificent object lessons in their National banks, Savings banks and Building societies. The first named, about 3,796 in number, have spread into the small towns and villages, but are purely joint stock companies of private origin. But the Building sicieties, more numerous even than in England, are ramified, each independent of the other, throughout the country; they are beginning to be called—even by law—Co-operative banks, which is their true designation, for the mere building of houses or provision for procuring homes is only one function; they provide excellent investments for thrift, they lend money on favourable terms, and they are notable examples of cheap and gratuitous working by those who believe in the duty of assisting others and of developing thrift, self and mutual help, as essential characteristics in national character. The Savings banks are institutions holding enormous funds which they are free to place as they please within certain restrictions provided by law; they consequently have gigantic amounts invested in mortgages. A noteworthy feature of American banking is the completeness of the laws and the extraordinary thoroughness of the State supervision exercised over all classes of banks.

Switzerland and Wurttemberg will be mentioned as examples of small States magnificently provided with credit institutions. The former has about 900 banks of all kinds for about 3,000,000 people; they have actually driven out the private lender, but so far from decreasing indebtedness they have probably increased it by the extreme facility with which credit is obtainable. Most of these are small Joint Stock banks; some are Co-operative and many are Savings banks; their peculiarity is the smallness of their size and their universality; some few are worth special study.

Wurtemberg is extremely interesting; it is a small kingdom just the size of a large Madras district—7,528 square miles, of which three-tenths is under forest—with a similar population, 2,036,522, of whom 923,252 are absolutely dependent on agriculture, living on 308,118 separate farms of which 36 per cent. are below $2\frac{1}{2}$ acres (probably held by labourer-cultivators) 56 per cent between $2\frac{1}{2}$ and 25 acres (small peasants), and only 8 per cent. above 25 acres; there are in fact only 0.5 per cent. above 250 acres; these figures compare unfavourably in size with those of an ordinary Madras district. In this country of poor peasants about one-fourth of the 1,910 villages have small rural banks, usually of the Raiffeisen type, of which there were, in 1892, 477 with 37,429 members, distributing loans of many lakhs *per annum*, supplying goods at cost price and of good quality to their members, and generally united in a Union which provided for audit, inspection, and assistance. There are also numerous other Loan societies, Savings banks, some attached to the Raiffeisen societies, Benefit societies, Insurance societies and Agricultural associations, besides ordinary banks of various kinds. The kingdom suffered most severely from the great drought of 1893, and the presence of these numerous Loan and Benefit societies must have immensely assisted the peasants. Nevertheless it is within the writer's knowledge that a vast number of peasants were in grat distress by reason of the "Jews," and it is clear that even this large number of rural banks is greatly insufficient for the general purposes of rural credit in the kingdom.

It will be useful to express the above roughly-sketched facts in terms more intelligible in this presidency, to which end a single Madras district of the size and population of Wurttemberg and with 1,500 villages may be taken as the unit. To be provided even as Germany generally is at present provided, there would be in such district two or three Land banks devoted entirely to land mortgage credit, issuing debentures and loans in correspondence with such issue, and managed entirely by local men with a certain amount of State supervision. There might also be a district Hulfskasse granting mortgage and other credit, and lending to associations for the purposes of industrial improvement. There would be about 200 Savings banks and branch offices, collecting deposits and lending a

large portion of these deposits *in situ;* all would be supervised in a general way by a Government officer, though this is not exactly the case in Germany. There would be nearly 300 Co-operative societies, of which about 200 to 250 or more would be purely Credit associations of the Schulze-Delitzsch or Raiffeisen types, while the others would be associations for various co-operative, industrial and benefit purposes. There would also be an indefinite but considerable number of Insurance societies, some being co-operative, associations—many being compulsory—for irrigation, drainage, tree planting, etc., associations for providing cattle, Agricultural and Peasants associations, and Monts de Piété. The whole of these societies, except the Co-operative banks, would be more or less supervised by the State, but so as to assist and not to hinder. None of these societies, except the Land banks, would have any privileges, but all would pay the usual taxes and be regulated by special and carefully worked-out laws. If, instead of confining comparison to Germany, Europe be taken as the model, the Agricultural associations in the Madras district should number, on the French existing standard, at least sixty, such associations being organized to procure for their members at wholesale prices and of first quality, iron ploughs and other implements, cattle, manure, seed, etc., and to place the produce of the peasant on the best markets free of the profits of the middleman, and at the best prices. There would be 100 or more Building societies of the type of the Madras Nidhi, and a number of Benefit or Friendly societies for the assistance of the poor in time of misfortune, sickness or death. If Switzerland be taken as the model, a large number of the Co-operative Credit societies would be ousted by small Joint Stock societies of small capitalists, in which dividends would be specially aimed at, but which the power of competition would keep within the limits of cheapness. If the example of Spain were followed, there would be about 200 Positos or credit granaries, from which grain for seed and maintenance would be lent, repayable after six months with moderate interest. There would be not less than 60,000 members in the various Co-operative societies, irrespective of the clientèle of banks, Savings banks, Insurance societies and the like.

And all these figures would be capable of and require *great* expansion and internal development in method and comprehensiveness, before the district population would be thoroughly provided with organized credit and industrial assistance. Such then is the lowest standard up to which reformers must work, and though a beginning has been made in the establishment of Nidhis in some districts, yet what are they among so many; about 80 Mofussil Nidhis, mostly in towns and for the urban population only; some Postal (Government) Savings banks; here and there a branch of the Madras bank for commercial credit purposes, and that is all. There is not the slightest reason why each decent town of 5,000 inhabitants should not have one or two Nidhis which may be taken as corresponding, but in some way superior in method, to the Schulze-Delitzsch societies; every village of 1,000 persons or even less, could have its village bank and credit-granary. The societies should all be united in groups of perhaps 100 each, and these groups again conjoined in a Central Union, so that proper internal supervision, audit and assistance might be given, and the necessity for detailed Government supervision removed.

The Nidhis would supply the Mortgage (Real) credit which they already furnish to their members, and are in this way superior to the Co-operative societies of Continental Europe; their pawnbroking, side would also be a highly useful addition which is practically untouched in Europe. It is possible that Land banks would be feasible in every important taluk, but they would be useless if not in absolute proximity to the clientele. Doubtless too, under the present bent of the Hindu business mind, a large number of Joint Stock banks would be found working alongside of the Co-operative societies. The system of village credit granaries supplying a credit so particularly consonant with the existing and universal custom of the presidency, might be developed till almost every village should have its granary, not merely as a source of annual credit but as a supplemental store of incalculable value in time of famine. The provision of Savings banks should be developed to a great degree, and would not be properly satisfied till every man should be within easy reach of a receiving office whether of a Savings bank or of a Loan society. No district of the above size would be adequately provided till it had at least 250,000 persons, usually heads of families, as members of the several classes of society, irrespective of individual depositors in Savings banks whether ordinary, penny, or school banks; this is no impossibility if the co-operative idea takes hold of the people as that of the Nidhis showed signs of doing in Madras, Chingleput and North Arcot, and as it would already have done, had there been due understanding of the purpose, methods and leading idea of the Nidhis, and due control over their organization and working.

To those who have the highest interests of the growing nation at heart, to those to whom the development of individual and national character in its higher planes and functions is more dear than its development in material and selfish methods, it should be a constant and absorbing effort to strain after the introduction of the co-operative and altruistic rather than the joint stock and self-seeking method: effort should also be made to develop the future associations as far as possible independent of State initiative and aid, and if such aid and supervision are necessary at first, effort should proceed in the direction of divesting the institutions of such accessories by the development of internal resources for the control, guidance, and assistance of working nascent societies.

PART II.—MADRAS PRESIDENCY.

CHAPTER I.—PRELIMINARY.

Certain points in the history of European rural banks require clearing up before any proposals are made. There must be no room for misconception as to the facts of that history and the present study is an attempt to provide a distinct conception of the actual work of European Agriculturists' banks, in view to the establishment of as many of those or of other systems as may seem good to various classes of promoters.

In the *first* place, there are practically no Land banks for the " peasant " as ordinarily, understood; the original mortgage debenture associations (Landschaften) of Frederick the Great, were not peasants' banks at all; on the contrary the " peasants " were expressly excluded; they were solely nobles' (Ritter) land banks, and though the peasant was in later years admitted to a few, especially to the new banks, the German "peasant" is a farmer of from 18 to 300 acres; the real " peasant proprietor " of English ideas, holding 10 or 15 acres, is not provided for or contemplated by these banks. As elsewhere explained, the word " peasant " in German means simply a non-noble, however large his estate and however rich he may be; the " peasant estate " held by a " peasant " as understood by the law and administration, is a farm, the minimum size of which is laid down by a law of 1836 as about 17 acres, and it is the owners of these farms who are—generally speaking—the " peasants " for whom branches were opened by the old Landschaften and who were admitted freely to the new Land banks. In Schlewig-Holstein the peasant is a man holding 100 acres; the half-peasant holds 50.

Secondly.—There is no general European Land bank " system," least of all for peasants. In Germany there are the Landschaften about 25 in number; these are mutual associations encouraged by Government; so also in Austria; then there are the private joint stock banks which may be founded at pleasure; there are a few State banks; there are special banks, under special laws, as the Crédit Foncier of France, and the Hungarian loan institutions; there are the Italian Land banks with a totally different origin and a different system. Then there are Savings banks which lend immense sums, other classes of banks, insurance societies and so forth. But there is no general European Land bank system—nor even a general system for any one country.

Thirdly.—There are no real ' Agricultural ' banks except the State Landskulturrenten banks of Germany which are Provincial land improvement banks only, some communal banks and the Raiffeisen agricultural loan societies; the first are only three in number; the second are more numerous but of very limited spheres and methods; the last named are truly agricultural but are only now developing. The 2,000 ' Agricultural banks ' with £150,000,000 of business mentioned by Sir. W. Wedderburn are evidently the Schulze-Delitzsch Popular banks; these however are not agriculturists but urban and general, though now about 30 per cent. of their members are agriculturists, and get about 15 per cent. of the loans; it is stated, however, that not the mass of small proprietors but only the medium sized holders, are reached by these banks which were started for urban purposes chiefly, and not for the peasants. These and the Raiffeisen loan societies have nothing to do with Government, but are purely private in origin and co-operative in method, and have arisen out of the devotion of two men and from the slowly developed confidence and powers of the German artisan, tradesman and peasant.

Fourthly.—There do not appear to be any " institutions on a large scale " established for the benefit of the peasant class; there is one small one in Hungary started in 1879 and a few Communal loan societies since 1887; to these however must be added the Popular banks of the Schulze-Delitzsch model, dealing with the same classes as do their prototypes in Germany. The large ' Boden Credit Institute ' is emphatically, *not* a peasants' bank. In Italy there are Popular banks and Wollemborg-Raiffeisen societies, the latter being especially for peasants, the former rather urban. France has no such establishment whatever, the Crédit Foncier being the Land bank only of the medium and large holders and chiefly urban at that. Belgium has no establishment for the peasants though there have been attempts and proposals made; her popular banks are distinctly urban. Switzerland has however numerous, but chiefly joint stock, institutions of a small and local character for peasant credit.

Fifthly.—It cannot be said that the State gives the above institutions " every support and encouragement "; as will be shown immediately, the concessions are moderate and are exceptional; such as they are, they cannot be quoted as examples but exceptions, save in certain points. The Popular banks and Raiffeisen systems which form the main body of banks for the peasantry, were not even recognized by the German law till 1868; they were then placed under considerable restrictions, and even by the law of 1889 they are regulated but in no way privileged; no single privilege can be quoted for them; on the contrary, they are subject to strict taxation of all classes, and have no powers of recovering debts save those open to all persons. The German Land banks of the mutual type (Landschaften) pay all charges and taxes except income tax; they are exempted from this because they are societies working without share capital, dividing no profit, and existing solely for the benefit of their clients; they have no real income to tax and are exempt as are savings banks and benevolent societies. So in Hungary the Boden Credit Institute is similarly exempted for an exactly similar reason it is not a joint stock bank with dividends but a benevolent

society; it pays no dividends and divides no profits whatever, but merely a fixed 5 per cent. interest on the small guarantee capital philanthropically contributed as " founders' shares ". for first starting, an interest considerably below the then ordinary rate of interest in Hungary. As for stamp duties, the Landschaften pay like any other commercial firm; the Hungarian Institute is exempt from stamp duty on the interest coupons of the debentures by which it draws funds from the public, but its transactions with its clients are subject to stamp duties; on page 15 of Commercial No. 9 of 1891 will be seen a list of such duties expressly stated as payable on loans obtainable " in the Institution " and these amount to exactly 2 per cent. of the amount of the loan.

The Crédit Foncier of France has certain privileges, amongst which are reduced stamp duty on its debentures whether in issue or in transfer, but even the reduced duty is higher than the similar duties—on mortgages—in India; decennial re-registration of its documents is not necessary as in the case with all other banks or lenders; it has legal privileges for recovery of its dues, and trust funds may be invested in its bonds. It has also the use of the Treasuries of Government for receipts and payments; for this and for the services of three of the " Receivers-General " as directors, the society pays at rates determined by Government. It pays moreover very heavy taxes; while its net income in 1890 was £880,000, the taxes amounted to £440,000 payable partly by the Crédit Foncier as a society, partly by the holders of its shares and debentures; its mere business license (patente) cost £10,000 in 1890, it pays also the salaries of its officers though appointed by Government. In Italy there is no exemption from taxation or stamp duty, the former being of the very heaviest description; as shown *s.v.* ' Popular banks ' and ' Savings banks, ' the mere tax on the " richezza mobile "—a sort of income tax—is a very heavy item, *e.g.*, on the Savings banks it amounted in 1889 to £280,000, while the whole expenses of administration for the same year were only about £160,000. In the Land Credit banks the half-yearly payments include a tax under this head of no less than 13 per cent. of the interest paid by the borrower. Moreover a large sum appears against each bank as " payment for Government supervision."'

It does not appear that the Hungarian Government " lends the help of its officers " in assessing the value of property mortgaged, " to the Boden Credit Institute, nor does the Crédit Foncier of France get the " assistance of Government officers " save very slightly and when paid for; its chief officials are appointed by Government, but they are not Government officers except in this particular capacity and their salaries are paid by the bank. Three of the twenty directors must however be chosen—in view to exercising financial supervision—from the " Receveurs généraux des Finances "; the services of these are also paid for by the bank. Nor does it appear that the Hungarian Boden Credit Institute is permitted " to sell the mortgaged and unmortgaged property of the debtor without recourse " to a Court of Justice "; on the contrary, such action must in general be taken through the' Commercial court ' at the capital; this privilege is also enjoyed by the Austro-Hungarian bank as being the national bank. There appears however to be one exception, viz., where a borrower so mismanages his estate, as to endanger the security of the loan, and in two other occasional cases. But in general, execution is through the Commercial court.

" There are also such privileges as subsidy, the special " purge " granted to the Crédit Foncier of France, and Government supervision. The subsidy is very rare in modern times; a few of the old Landschaften obtained them as a reserve fund seeing that they were founded by executive fiat and that all landholders within their area of operations were compelled not merely to join as members but were made responsible in all their property for the bank; the Boden Credit Institute of Hungary has a similar privilege since it is a philanthropic foundation in which the founders and managers get no profit, while the institution is calculated to assist the better classes of landowners; the Crédit Foncier of France obtained an advance for preliminary operations since the institution was a novel experiment in that country, and the recognition of Government was supposed to be necessary; it is to be remembered that joint stock banking business was at that time itself in its infancy, while the methods and objects of the particular society were wholly novel; various small States have also granted subventions. In Italy the eight banks specially authorized to grant mortgages are allowed to distrain movables through their own officers as though for State dues; and the Crédit Foncier of Frace has the privilege of a summary procedure through the ordinary courts. There are certain other Land banks—very few however—which enjoy privileges of collection, but these are State institutions proper.

But what is to be clearly understood is this, that save for one item, the privileges granted are exceptional, and not " examples " of general usage in the matter of Land banks; it must not be understood that there are thousands of ' Agricultural banks ' in Europe enjoying from the State " every support and encouragement "; it is a mistake to consider absolutely exceptional and almost solitary privileges granted to exceptional banks (viz., either those working without dividends and profits, or the Crédit Foncier of France which is a quasi-State Institute) as though they were examples of very " liberal concessions granted " by the respective Governments "; they are not examples, but exceptions.

Certainly, too, the Belgian proposal of 1852, though passed by the House of Representatives, cannot be considered as indicating the " extent of support which Continental Governments are prepared to give " in the way of re-organizing credit "; the banks was to be a State bank and would therefore get certain unusual and abnormal privileges, but even so, it was a mere project, which has never been revived, and was a product of that excited

time which produced hundreds of extraordinary and wholly abortive projects for agricultural credit; it was, moreover, the project of one little kingdom and none of the larger States has provided or even contemplated any such system.

One important item however is general and not exceptional, and this is granted rather as a safeguard than as a privilege, viz., that of Government supervision. This is general and very strict; Government ministers, commissioners, auditors, &c., supervise every class of Land bank in Europe, whether joint stock or mutual; supervision is universal and is only a matter of degree. This supervision is paid for by the banks and its amount is fixed by Government. But the Popular banks and loan societies, the real peasants' banks, are not so supervised; they disdain and reject Government interference and have established special methods of supervision. Nevertheless even in this case supervision is provided, for they are placed under carefully devised laws, whether those of the general commercial codes, or—as in Germany—some special law.

One other privilege to Land banks seems frequent if not general, viz., that of simplfied legal procedure, usually in the Commercial courts. As will be seen from a description of the European Commercial courts the procedure there is cheap and summary. In Europe these exist in all important trading and commercial centres, and the powers of such courts are also exercised by the ordinary courts in places of less trade. These courts were not established for the benefit of Land banks, but for the speedy and cheap disposal of all trade matters; these include all banking operations generally, so that the regular banks, as well as the Land banks, have the advantage of these courts. The real point, there, is, not so much that certain institutions have special privileges in the matter of distraint and sale of property by special procedure, but that in Europe the commercial classes and operations of trade whether of banks or ordinary tradesmen or trading societies are disposed of by special and summary courts, so that debts can be speedily recovered not merely by cheap and speedy distraint, but by cheap judicial process as against the slow and costly ("lente et couteuse") procedurr of the ordinary courts. (*See* section on 'Commercial courts' in a subsequent appendix.)

Sixthly, it is a mistake to suppose that through the creation of the Crédit Foncier of France "the current rate of interest has been reduced from 9 or 10 to 5 per cent." and thatt the facilities granted by the Hungarian Institution "have greatly helped the pros-"perity of all classes in the country and lowered the rate of interest all round"; it is not conceivable, nor is it a fact, that a single Land bank in a vast country like France, or a single institution in Hungary should have this extraordinary effect. All that is said in Commercial No. 9 of 1891, which seems to be the authority referred to, is, as regards France that the Crédit Foncier "has materially lightened the load, of debt weighing on property, "*in this sense*," that it demands (*i.e.*, the Crédit Foncier) only 4.85 per cent., while the rate of interest payable by property at its creation was from 8to 10 per cent. That is, it works very cheaply and all loans obtained *from it*, pay only 4.85 per cent. As a matter of fact M. Durand, writing in 1893, states that his personal enquiries convince him that even medium and well-to-do estate holders in France habitually borrow for the purposes of their estates at 10 per cent. per annum, from which the rates paid by the small folk may be estimated. Similarly, as regards Hungary, it is not that the institution has lowered interest "all round," but that it has been able (p. 11 op. cit.) to reduce "the rate of interest "which the borrower pays for the loan" from itself, as shown in the table of its charges from 1863 to 1886 which immediately follows the remark.

Seventhly, the Government of France does not "guarantee the Crédit Foncier against "competition," nor is there in fact in any European country a "monopoly" of land mortgage business. In the first place the monopoly of the French Crédit Foncier was or is a monopoly not of business but of certain privileges; in the second place this monopoly was only for 25 years from 1852 and the monopoly has never been renewed; thirdly, the law authorized the establishment of any number of similar societies with the sanction of the Government; fourthly, this monopoly in no way prevents the foundation of societies for land credit on the basis of the ordinary law without any Government authorization, which is only required for societies under the special law, neither is land mortgage business of any class forbidden to any person or society or bank. As a matter of fact, in 1879 a powerful society with a capital of about £2,000,000 called 'La Banque Hypothécaire de France,' was established expressly to gain a share of the privileged mortgage business; it issued debentures, and as the commercial courts subsequently ruled that debentures of the class indicated by the Act could only be issued under the Act it sought the authorization of Government for the privilege; while awaiting this, and when it had already accepted mortgages for above £6,000,000, the Crédit Foncier entered into negotiations with it, and finally (1882) absorbed it into itself. Hence the monopoly is merely the result of the power, influence and extreme skill of the existing great society. There is no Government guarantee against the competition either of similar societies under the special law or of ordinary societies, banks or persons operating under the general law. Similarly the Italian monopoly is a monopoly of privileges including especially the issue of debentures, and the power of summary procedure. The point is important, as monopoly *of business* has been claimed by promoters of Indian Land banks.

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* "Le Crédit Foncier a materiellement allégé les charges des dettes pesant sur la propriété, *en ce sens*, qu'il ne "demande que 4·85 pour cent d'interêt, tandis que le taux d'interêt payé par la propriété au moment de sa création, "etait de 8 á 10 pour cent"

Results.—The general impression left by the papers on proposed Indian Land banks is that European *Land* banks have been very successful in organizing credit for the "small proprietors,"—usualy called the "peasantry"—in Europe, and that they therefore afford a precedent for Indian action. It has been shown that the privileges granted, as quoted, are exceptional, not typical, and that the banks were not established for the peasant class at all, but in Germany and Austria for nobles, and in France for proprietors generally. It remains to consider the results, for however much Land banks in India may be needed, it cannot be quoted in their favour that they have re-organized credit for "small" proprietors in Europe, or "worked wonders" for the peasant either in France, Germany, Austro-Hungary or Italy.

"Small" proprietors or cultivators in Europe are those who hold at most 10 hectares (25 acres); all holding from 25 to (say) 100 are medium holders; those above are large holders. Now it is the "small" class which form by far the greatest number of holders; in Germany out of about 3,504,040 proprietors—exclusive of those below 2½ acres—no less than 2,274,096 or 65 per cent. hold from 2½ to 25 acres, besides whom there are 2,323,316 holding below 2½ acres. Hence the vast bulk of the proprietors are from small to very small. The area held however is very differently apportioned; in France 38 per cent. of the holders occupy, in holdings below 2½ acres (very small), only 2.2 per cent. of the surface; 46 per cent. with from 2½ to 25 acres (small) occupy 22.9 per cent.; 13 per cent. occupy 29.9 per cent. in medium holdings of 25 to 100 acres; and 3 per cent. occupy 45 per cent. of the land in estates above 100 acres. Hence 84 per cent. of the holders occupy only 25 per cent. of the area of France, in holdings below 25 acres, and, even excluding altogether the numerous very small holders, nearly half the proprietors occupy less than one-fourth of the soil. Similar facts are noticeable in Germany, where 87 per cent. hold 28 per cent. of the land. In Madras the areas held are not precisely known, but, as the average incidence of the land assessment per occupied ryotwari acre is about Rs. 2, it follows that those paying less than Rs. 50 hold on an average less than 25 acres, unless the land is all "dry" or of poor quality, in which case the area may be more but not the value or the productive capacity. This class in this Presidency numbers about 94 per cent. of all ryots and holds about 60 per cent. of the ryotwari area; those holding below 15 acres (paying below Rs. 30) are 89 per cent. in number and hold 45 per cent. of the land. Hence conditions are very different in Madras, and if credit is to be provided for "small" proprietors holding below 25 acres, it must be extended not merely to the great bulk of all holders, but also to more than half the land. This, in fact, is shown by existing mortgages, the average value of which is only Rs. 190, while the average value of just half the mortgages is only Rs. 44.

In examining, then, the feasibility of applying the European Land bank systems to Madras ryots, it is necessary first to see whether those systems have really reached the corresponding classes in Europe. The answer in brief is "not at all"; it has never got below the medium class; speaking generally; the "small proprietors" get real credit only from Savings banks and money-lenders. The statistics of the Crédit Foncier of France are elsewhere mentioned in detail; suffice it to say that whereas about two-thirds of the mortgage debts of France are probably below about £60 (in 1841 they were below £40), the Crédit Foncier has probably never granted such a loan out of the £139,000,000 granted since 1852; in the five years prior to 1890 its rural and urban loans below £200 averaged annually only 1042, the mean value being £131. And after all said and done, it is found that in 38 years from 1852 to 1890 only 77,536 loans have been granted on mortgage, of which no less than 55,034 were on purely *urban* property. Hence the supposed work of the Crédit Foncier as regards the rural masses shrinks to nothing, only 22,161 loans in 38 years to *all* rural classes; these formed 28 per cent. of the total borrowers, but got only 20 per cent. of the loans, each loan averaging £1,254.

Similarly in Germany the statutes of the Land banks forbid loans below minima which practically exclude the small folk; while, as a matter of fact, as shown in detail *s.v.* Land banks (Germany) loans even approaching the minimum are nowhere given by the several classes of Land banks, save only in exceptional cases in Bavaria and in small States, and many, if not most, of the very small loans are probably either urban or in the immediate neighbourhood of such banks. As stated in the Prussian Agricultural minister's report for 1887, real credit institutions are capable of giving real credit down to the "team "owning" classes, *i.e.*, those holding about 17 acres of land and upwards, but that for smaller folk "a mere land credit institution is particularly ill-suited." It must be added that it is exceptional to find mortgage loans by Land banks actually granted so low as to reach the lower class of team owning farms.

In Italy the result of the system wa sthat between 1866 and 1885, the eight mortgage banks lent only £13,239,244 in 8,355 loans, averaging £1,584 each; the mere valuation fee in the National bank is fixed at a minimum of £4 for rural property; even for the cheaply working Milan Savings bank it is stated (Report of U.S.A. Consul in 1880) that 75 acres was about the lowest area on which a mortgage loan could be given by it in Venetia. In Hungary the Boden Credit Institute lent in twenty-six years £14,000,000 in 11,000 loans or £1,272 per loan, only about half the number being below £260; as the statutory minimum for loans is £83 (1,000 florins) and the average loan granted was about £1-10 per acre, it follows that no one with less than 55 acres can ordinarily even apply for a loan. The special bank for the "small folk" did however grant 9,726 loans in nine years averraging £33, but as the loans granted average less than £2 per joch (1.43 acres) it follows

aging £33, but as the loans granted average less than £2 per joch (1.43 acres) it follows that even in this society, no one holding less than 12½ jochs (17 acres) can get loans, the statutory minimum being £25, and it is significant that this society has recently raised its maximum loan, showing that it contemplates taking larger rather than smaller business. This is precisely the result of the Crédit Foncier Egyptien, a bank intended to assist the fellahin (ryots) with land credit; it began with a few small loans, but within a few years found that loans below £300 could not be granted.

It is expressly stated by numerous authorities that real credit, as administered by existing institutions, whether in France, Germany, Austria or Italy, reaches only the large and medium proprietors; the "small" men get it only from money-lenders and Savings banks. The only exceptions are the special cases of the Provincial Rent charge banks of Germany started by the Provincial Governments for the redemption of feudal charges, the special Boden Crédit Institute for small proprietors in Hungary, the Peasants' Land Bank of Russia, and the Banks of Switzerland. But, as elsewhere shown, the Rent charge banks are mere offices of issue; the work of fixing the charges, and of commuting them into a fixed money charge was laboriously done by special commissioners; on the register of rent charges settled by them the bank simply issued its debentures. There is, indeed, no similarity whatever between the work of these so-called banks and actual banks; the amounts to be issued by them are fixed for them; those amounts do not increase or even fluctuate when once fixed; there is no risk, no incessant change in status, no incessant lending, borrowing, depositing, withdrawing for all sorts of purposes and at all sorts of seasons on all sorts of securities, as in the case of a bank. (So also the Russian Peasants' Bank does not deal, except occasionally, direct with individuals, but with the communes (mirs) or with associations, and this bank, established by Government to enable the ex-serfs to purchase their lands, as in the case of the Rent charge banks of Germany, is already seriously contracting its volume of business owing to the comparative failure of its operations; quite recently the arrears for which it had attached lands for failure or repayment; amounted to exactly 10 per cent. of the total amount of mortgage loans issued. And after all, exclusive of Switzerland, the work done by the above special classes of banks in the way of real credit is a mere trifle to that done without fuss or special privileges by the ordinary Savings banks under the régime of the free employment of their funds.

There is then unfortunately little ground for believing that European Land bank systems have revolutionized credit, or work wonders for the peasantry. It is true that in Germany many peasant estates have of late years benefited by the extension of the operations of the Landschaften to them, but the "peasant" estates of Germany are the Bauerhöfer as opposed to the nobles' estates (Rittergüter) and are those which range from 18 to 300 acres. The really "small" men, the "kleine Leute" or "peasants" as Englishmen understand the word, are not within the scope of the Land banks proper.

It follows then, that in proposals for India the success of the European Land banks cannot be quoted as precedents for Madras, where the bulk of the men who need credit and who hold above half the land are precisely those "small" folk whom the Land banks have not yet reached.

If we look, however, at areas and agriculture, then the European Land banks have been more successful than if we look at men; loans granted to medium and large holders who occupy by far the greater area even of Europe, may benefit agriculture, so far as they gone, to a much greater area than if they were granted to small folk, but if we consider the people rather than the areas, these large loans granted to a comparatively few large and medium holders are unsuccessful as sources of credit.

The failure then of the Land banks hitherto to reach the masses does not necessarily imply that they have not reached a considerable number of large and medium holders, and a considerable area of land; all that is pointed out is that they have not yet succeeded for the mass of holders; that many years of effort—40 at least of the most highly developed forms —have not brought cmagized and cheap real credit to the masses of small holders, such as form by far the greatest number and hold or occupy two-thirds of the land, in this Presidency. Many of their principles and methods, *e.g.*, those of co-operation, mutuality, the gratuitousness or cheapness of administration, the issue of the land mortgage debenture, the grant of long term credit and repayment by amortization, the establishment of a degree of Government supervision and audit, the grant of privileges such as distraint, and reduced fiscal charges may very usefully be adopted in the land or other banks to be hereafter established in this presidency.

Nor must any sudden development of bank credit be expected; it has taken one hundred and twenty years in Germany and forty years, at least, all over Europe, and yet the system has not grown into full success; we cannot therefore expect to see Indian conditions revolutionized by any sudden development of Peasants banks; they must painfully grow out of many attempts and many failures; not out of many proposals or schemes, for—as shown under ' personal credit ' —France for fifty years has made proposals for ' Le Crédit Agricole ' and is now exactly where she was then; *solvitur ambulando solum.*

One further lesson is this, that however attractive the idea of special Land banks. with special laws and privileges, acting like machines from a centre of power, it is after all the Savings banks governed only by the ordinary law of the country, without any privileges, except—as benevolent institutions—that of exemption from income-tax, obscure in origin and in working, and earning not even honoraria much less salaries for their promoters and directors,—who on the contrary give their time and money freely to their

administration— which alone have succeeded generally in extending real credit to the masses of continental Europe; it is evidently by their proximity to the people, and by the confidence induced by their purely local administration that they are thus successful. Similarly the real credit institutions of the people in England and America are the Building societies, often small and local, and most successful in this particular function where small and local in America this fact is especially recognized; cheap, local administration on thoroughly co-operative lines is earnestly advocated in the United States as against central societies on the dividend and agency principles. So also in Switzerland, it is the petty savings and Joint Stock banks, often with a capital of only a few hundred pounds, established each in and for a village or similar circumscribed area, that have ousted the private money-lender and extended organized and cheap credit to the peasants. Heroic remedies, brilliant schemes and magnificent societies are very seductive but they are neither necessary nor even successful in this particular rôle.

Now the above is not a mere academic discussion or profitless criticism; the question is, *why* after so much discussion, study, effort and experiment, the " small " proprietors of Europe are outside of the land credit systems, however successful for certain classes? The answer is simply because they *are* " small " folk; it is just the difficulty of providing organized credit for the masses by means of centralized institutions, it is the impossibility of dealing with hundreds of thousands of petty cases by such banks, that prevent the development of popular real credit. How can even an institution at the centre, say, of a district, deal with a hundred thousand candidates for loans of from £5 to £30? How can it investigate titles; how keep down expenses so that they shall not be utterly disproportionate to the loans? The crux of the problem lies here; how to adapt to the needs and conditions of millions of scattered ryots the principles and methods found successful for a few thousand large scale borrowers; if that is impossible, how to organize credit, real or personal, so that it shall be available cheaply, readily and yet safely in millions of petty loans. There seems to be one chief answer to the problem, viz., proximity and local influence; this is the case with the money-lender and it must be the case with the banks which are to compete with him; only the influence must be the result of confidence and not of the thumb screw.

So far Real credit alone has been discussed; all the institutions hitherto adverted to in the various proposals for India are purely Land Credit banks. But Land banks by themselves are useless; a ryot requires frequent and temporary credit on a small scale far more than occasional mortgage credit, and no provision is made for that. In Europe there is no personal credit banking system yet available for " small " folk, save only the Village banks of Switzerland, and the co-operative institutions known as Popular banks and Loan societies in Germany, Austria and Italy; the Savings banks grant comparatively little in this form; the ordinary banks do not know the small man; some few of the German Land banks have started branches for this purpose, but nothing special is known of them; it is in fact stated that the persons using them are generally members of the Landschaften and therefore not small folk at all. The Communal societies which are found in Germany and Switzerland, and are newly started in Alsace-Lorraine, are however useful in this matter. No Government or great company has yet succeeded in providing personal credit for the masses; these are only reached by small local institutions, whether joint stock, co-operative, or communal.

In fact the only Agricultural or other banks which have really reached the peasant masses corresponding to the bulk of the ryots of this presidency, are not the Land banks or State banks or Central banks of any description, but the Popular or Village banks, and these are the work of the small folk themselves, stimulated, and led by energetic and devoted men of their own class, but operating and managing the banks themselves, without help or privileges or favour (*see* ' Popular banks ' in Part I). The problem is whether this presidency possesses men capable of similarly energizing and guiding the ryots of their respective neighbourhoods, and what assistance can be given to such men if they exist..

CHAPTER II.—MADRAS SYSTEMS OF CREDIT.

General.—The general credit system of this presidency is well known; in any given village there will be a few mortgages, a certain proportion of money debts on bunds or promissory notes, and a much larger proportion, chiefly among the small ryots and cultivators of debts in kind. The proportions under each class will vary immensely according to the district; *e.g.*, Tinnevelly with 1,521 villages, had, in 1892-93, 59,598 mortgages or 36 per village; Cuddapah, with 1,340 villages, had only 2,445 or 2 per village; in Anantapur, village after village may be examined without finding a single mortgage. Similarly in certain of the Tamil districts a large number of cash debts upon bonds or promissory notes will be found, while similar debts are insignificant in many villages of the Ceded Districts. But in all villages there will be found a large number of grain debts, due either to brokers and shopkeepers, or, and more generally, to other ryots: in many Anantapur villages where there is no such thing as a shop, every measure of borrowed grain is obtained from some ryot of the village, and at the same customary rate. Probably it would, at least for an immense number of villages and for the majority of small ryots and cultivators, be safe to say that the rural credit of this presidency is chiefly grain credit, all the poorer ryots habitually and annually borrowing from richer ryots at the sowing season, and repaying the advances at harvest. It may also be said that the rural creditors or lenders of this

presidency are, for the vast bulk of the loans, ryots and not men of the Marwari class. In Tinnevelly, South Arcot, Coimbatore and other districts where the short mortgage is in vogue, from 85 per cent to 73 per cent even of such loans are granted by ryots; similar figures are found in loans upon simple bonds. In the Ceded Districts, such as Anantapur where mortgages are rare, there will be a few simple bonds due to men—often well-to-do landholders—outside of the village, but the bulk is due to the richer ryots within the village, and nearly every seer of borrowed grain, the commonest form of loan in these districts, is due to co-ryots of the same village.

In considering the future of banks it will be necessary to consider these differences in system: above all it will be needful to take count of the fact that the ordinary ryot borrows for current needs not in cash but in grain. (*Cf.* 'Monti Frumentarii' and 'Positos' in Part I of this appendix *s.v.* 'Italy' and 'Spain,' respectively.)

There is, with two exceptions, no such thing as banking or organized credit in the presidency outside of Madras and the few towns where there are branches of the Madras Bank; the whole mofussil is under the regimé of the individual money-lender, whether ryot or professional; the result, of course, is stint of money, dear and inconvenient credit, insufficient facilities for thrift.

The exceptions are the Nidhis or Loan Funds and the 'chit' system. This latter is an indigenous method of thrift and mutual credit; a number of persons, usually co-villagers agree to pool each week or month a fixed subscription, and the pool is, on each occasion, successively lent to each member in turn, the individual being selected by casting lots, previous winners being excluded from taking the pool, but of course paying in their subscription. Thus, fifty persons each pay 1 rupee per week; each pool of Rs. 50 is handed over by lot to a member; at the end of fifty weeks each member will have contributed Rs. 50 and received Rs. 50: by this method thrift is facilitated, and mutual credit developed; the fortunate ones obtain the lump sum early in the period, the least fortunate at the end.

It is obvious that this system may easily be developed, and the Nidhi or Loan Fund is precisely such a development on the lines of the English and American Building societies the matter is more fully discussed in the chapter on 'Nidhis.' The 'chit' system is said to be largely developing in Tinnevelly and Malabar; this development is a matter of great promise as an evidence of the power and willingness of villagers to combine in saving and lending: it requires to be cautiously stimulated and guided so that it may develop into a village banking system. The history of the Nidhis shows the need for such stimulation and guidance; a large number have started and failed; many are proceeding on wrong tracks, and there is a general lack of development whether in extension or in method. Had there been external stimulation and supervision, it is believed that the 140 existing Nidhis might easily at this moment have been 1,400 or more.

The subject will now be considered as regards (1) the classes who lend money; (2) those who borrow; (3) the purposes for which loans are taken; (4) the purposes for which they are given; (5) the methods, rates, and periods of credit; (6) the results.

The lenders.—Generally speaking it may be said that all who have spare wealth—money or grain—lend it; retired officials, pleaders, shopkeepers, professional money-lenders, and, above all, ryots. As already mentioned, the last-named class is the great lending class in this presidency; it is only in towns and large villages, and in certain tracts that the professional lender is of importance; village credit is granted generally by villagers, mostly ryots. One peculiar fact appears from the tabulation of more than 3,000 small cause suits throughout the presidency, viz., that the small loans below Rs. 50 are lent as follows: by Brahmans 17 per cent., by Chetties and other Vaisyas 27 per cent., by Muhmamadans 7½ per cent., by all others about 48 per cent.; the number of retired officials probably accounts for the relatively large number of loans by Brahmans.

The classes of lenders are (1) masters to servants, (2) landlords to tenants, (3) ryots to ryots, (4) sowcars to clients, (5) brokers to producers, (6) cattle-dealers to ryots, (7) cloth-sellers to buyers, (8) shopkeepers to buyers, (9) domestic and petty lenders. The first-class will hardly—for the present—come within the scope of banks; the case is that of labourers, often ancestrally labourers, who work for the same masters from year to year; they receive small sums from time to time for marriages, &c., and the advances are—probably purposely—so arranged that the labourer can seldom free himself from service, though nominally hired by the year; it is a form of contented and almost voluntary serfage. It is not banks that will eliminate this form of money-lending.

The second is the help frequently given by landlords not merely directly in loans, but in improvements, in delaying claims for rent, in lending cattle, seed, &c., under the various forms of metayage. This form again will not be affected by banks; it is a function of landlords everywhere and a regular incident of the relationship, where the tenants are barely above the ordinary labouring class and often have no lands of their own. The relationship, however, in the bulk of cases is that of metayage, which exists in every form known in Europe; sometimes the tenant is the richer, and forms his poorer neighbour's land; more often the tenant is landless and is dependent on the landlord for cattle and seed, &c.; between the two extremes there is a variety of methods. This credit cannot be touched by banks; it is a social relationship. But in one form the metayer or half-vâram relationship is not a form of credit, but the result of credit, viz., when a money-lender has obtain-

ed a usufructuary mortgage, in which case he usually lets it out on vâram to the mortgagor. This case will be affected by banks.

The third class of credit is that most frequent in the mofussil, especially in the Tamil districts. The table of registered loans in this appendix shows that of mortgage loans about 85 per cent. were granted by ryots in the Anantapur district, while in Tinnevelly no less than 84 per cent. of all such loans were granted by ryots, Coimbatore coming next with 78 per cent. So in the case of loans on simple bonds; in Bellary only 29 per cent. were granted by ryots, while in Coimbatore 79 per cent. and in Tinnevelly 77 per cent. were so granted. In the whole presidency, typified by ten districts, just two-thirds of the mortgage loans are granted by ryot lenders, and seven-tenths of the registered loans on simple bonds. (*See* table of 83,000 registered loans in another part of this appendix.) This is a very remarkable and interesting fact, and places the character of Madras indebtedness, especially in the Tamil districts, in a position wholly different from that of the Deccan; if the money-lender is expensive he is at least a ryot and not a foreign usurer. It will be seen, presently, that the Madras lending *in general*, though expensive, is hardly usurious in the sense of being the result of calculating greed and opportunity. In many cases, however, it is exercised usuriously in order to gain possession either of coveted land, or of influence; it is in this latter way that much moral evil results, the influence being often exerted for faction purposes.

As regards personal credit also it is certain that this is chiefly granted by ryots to ryots. The table of registered bonds does not bring this out, for the credit in question is seldom evidenced by regular bonds, but is oral or covered only by chits or promissory notes, or by entries in accounts. This is especially the case with the universal gain credit system: it will often be found that while a large proportion of the ryots of a village owe debts in kind, not a measure is owed outside of the village. Village Mutual credit associations on the Raiffeisen and Schulze-Delitzsch principles will simply systematize this useful form of credit, make it co-operative instead of individual, and immensely improve the terms of credit.

The fourth class is that usually contemplated when speaking of mofussil credit and indebtedness; further details will be given under 'methods, rates and results.' In the Tamil districts there are classes who are fully equal to Marwaris in keenness, but owing to competition among such classes, and to the fact that, for ordinary purposes, the ryots are largely lenders among themselves, they have not, as a class, earned the evil reputation of the Deccan usurers, and no serious exploitation of the ryots is heard of such as is depicted in the Deccan; correspondents usually describe the Tamil professional money-lender as possessed of no special influence unless otherwise influential; there is of course lending at high interest and much local and individual hardship caused by greed, but the sowcar does not enter as a dominant factor into the daily life of the general Tamil population, or become master of the labour, lands, bodies and services of whole classes of ryots as in the Deccan and parts of the Ceded Districts, except where he has obtained leases of villages from Zemindars, or in and near his family head-quarters. Banks should largely replace these men.

The fifth class is that of brokers and producers. Probably the heaviest terms in the way of interest are found in this form of credit. The broker is not necessarily, as he seems to be in Northern India, especially in the wheat countries, the village money-lender who deliberately gets power in order to command the crops of the ryots for export purposes, but is often a mere trader or the agent of large brokers or merchants who supply the European or other export firms; these are chiefly found in the tracts of special produce, such as cotton, jaggery, indigo. The immensely valuable black cotton tracts of the presidency are exploited by these men; the palmyra tracts of the extreme south are chiefly worked by them, including many Muhammadans, so that the ignorant Shanar population gain little by the immense increase in prices and demand. The Raiffeisen, &c., associations could entirely eliminate this form of usury, and obtain every rupee of legitimate profit for their own members. If banks are to succeed they must be so organized as to take up produce brokerage, at least in the special produce tracts; they must be associations, not merely lending banks. Ryots can seldom manage to dispose of their own cotton or jaggery direct to merchants; they must have a middle-man, and this "daughter of the horse-leech" is ever grasping at more and more of the profits of trade. Associations, and open weekly markets much more numerous and thoroughly organized than at present, are a necessity; the work of the former will be detailed hereafter and has been described at length under the heads of Raiffeisen and Wollemborg societies and Agricultural associations. When weekly fairs, as to some extent in Coimbatore, are very thoroughly opened and worked, a ryot can obtain, by the higgling of the market, a fair price for produce, but then there must be the complement of the market, viz., a bank which can lend the ryot money for kist, &c., while he is waiting for his crop to ripen, or for decent offers in the market. When the cotton ryot, especially in zemindaris where the old kists prevail, must have money for cultivation, assessment, &c., in November-January, while his crop is not picked till April-June, he must borrow, and he falls straight into the middle-man's hands, and can no longer call his produce his own.

The sixth class is that of cattle dealers or owners. In the case of owners of cattle the bargain is usually that between landlord and tenant, and is a form of metavage; the land-owner lends his cattle to a tenant on varying terms, expressed in shares of produce. The usual class of credit, however, is that of the dealer; certain tracts are worked by particular dealers who supply customers with young cattle on credit at very high rates, calling

periodically for instalments; if these are not ready, the debtor is coerced in a peculiar way by saddling him with the maintenance of duns or men in possession, till he ends by borrowing the instalment from a local money-lender. The methods and results will be described below. This class is very largely found in the Ceded Districts; elsewhere a ryot usually gets cattle by borrowing money at interest.

The seventh class is pretty general; a great deal of cloth is sold on credit by travelling merchants who call for their instalments like American pedlars and agents.

The eighth class is that of shopkeepers and buyers. The village shopkeeper is often an important person; he supplies grain, &c., on credit at his own prices, the record is *solely* that of his books, and his stock is more than replenished at harvest by the payments of his debtors; he becomes in fact, in many parts, a produce broker. The Raiffeisen class of societies could deal successfully either as credit or as Agricultural associations with the last three classes of credit.

The ninth class embraces a variety of miscellaneous dealings bearing the most usurious interest " á la petite semaine "; domestic servants—a very large class— are usually in debt, and pay terrible interest; petty retail shopkeepers buy goods from larger dealers or at markets or credit, and pay absurd prices; or they borrow very petty sums from lenders to buy a basketful of goods, the amount to be repaid at next market day, with interest sometimes amounting to 2 annas per rupee per week or 6.50 per cent per annum.

This class also includes the case of petty contractors, artisans and others who borrow for purchase of raw material, &c., these are now charged heavy rates for the accommodation Loan societies of the Schulze-Delitzsch pattern are those specially intended for all those falling under this class.

The Borrowers.—Probably there is no ryot who at one time or other has not borrowed. That a man is rich or has large private lands is nothing; it merely means—as correspondents state and experience proves—that they can and do borrow more largely; social customs require them to make a larger and disproportionate show on many occasions; seasons will fail; litigation crops up; spendthrift members dissipate savings, and imprudent once borrow rashly, there are many descendants of high family in the Cauveri valley whose extensive estates, chiefly wet lands, have decupled in value by railways and by rise in prices during the last thirty years, but who do not know where to turn for the Government kist and whose lands are mortgaged to the last rupee

It may be said, then, that all ryots at one time or other, even the lenders themselves become borrowers. Many money-lenders themselves trade partly or generally on borrowed capital; these are the worst of usurers, for they have to make a livelihood after paying heavily for their capital.

But a vast body of ryots habitually live only by means of borrowing; they could not begin to cultivate without borrowing seed, cattle, grain for maintenance, &c., so that their crop is pledged in advance; they are thus in the worst cases little more than tenants of the lender who can prescribe what crops they shall grow and demand what terms he pleases, so that on settlement of accounts the cultivator has little to go on with, and must again borrow; in famine years these men have practically no resource, having no actual ties with others such as those of tenant with landlord, servants with masters. The immense number of these may be judged from the fact that about 86 per cent. of the Madras ryots pay less than Rs. 10 and on an average Rs. 4, as assessment. If banks or credit associations cannot reach these, a large proportion of Madras agriculture must remain degraded and a far larger proportion of agriculturists must ever remain in povery, ignorance and bondage.

(3) *The purpose for which credit is taken.*—These are as follows.—

(1) Cultivation expenses (current) including purchase of seed, manure, &c.;
(2) Purchase of cattle, implements, stock in trade, raw material, &c.;
(3) Purchase of land;
(4) Improvement of lands (irrigation, drainage, breaking up waste and weedy cotton lands, planting of orchards, &c.) including improvements to existing works;
(5) Relief from prior debt;
(6) House building and repair;
(7) Advances for entering into contracts, small trades, security to employers, &c.;
(8) Maintenance;
(9) Payment of Government dues, rent, &c.;
(10) Marriages and other social events including the borrowing by bridegrooms of money for ornaments, &c., to be settled on the bride;
(11) Ornaments and other tangible luxuries;
(12) Litigation;
(13) Education (amongst the higher classes or castes);
(14) Unproductive or extravagant expenditure.

The tables prepared for this report only show part of the borrowings. In the table of registration statistics, it will be seen that, according to the districts, eight or nine-tenths of the borrowers upon mortgage are ryots, except in Anantapur where the proportion is 63 per cent of the borrowers; upon registered bonds, only six or seven-tenths are ryots. In the table showing small cause suits, ryots and cultivators figure for only 64 per cent. These tables, however, tell nothing of the mass of small village loans which seldom come to court but run on from year to year; or of the grain loans, which form by far the largest number of loans and possibly aggregate a greater annual value than any other single class, being universal throughout the country, and the general custom in every village.

From the table of registration statistics in this appendix, it will be seen that by far the largest item, usually approaching half the number of loans, is No. 5 (settlement of prior debts), and probably a large share of the loans for which no purpose was stated is due to this item. Probably the item in the table does not mean generally a loan from one person or bank to pay off a variety of other debts, but is merely a settlement of account between the creditor and debtor in which the creditor desires more tangible security than has hitherto been given; it should be read with the column entitled ' renewal of debts '. In these cases the mortgage is the last stage on the road to ruin; up to a certain point the creditor is content to lend upon the general *status* of the debtor; beyond that stage he requires a mortgage. This is precisely the case in all other countries.

Item No. 10 (marriages, &c.) accounts for a large share—one-eighth—even of registered loans especially in Salem, Bellary and Kistna. Moreover a large number of the ' not stated ' loans should probably be credited to this head, especially in districts where the item appears small.

Item No. 4 (improvement of lands) appears for only a very trifling percentage (1½ per cent), though such loans, being of considerable size and for considerable terms, are granted usually only upon mortgages or registered bonds.

Item No. 3 (purchase of lands) is not inconsiderable.

But this table shows only the transactions based upon regular documents, while by far the greatest amount of borrowing is either upon no document or upon mere promissory notes, or chits, or entries in the lender's accounts: in such borrowings, items No. 1 (cultivation expenses), No. 2 (purchase of cattle, &c.,) No. 7 (advances for small contracts), No 8 (maintenance), No. 9 (payment of kists, rent, &c.) form the overwhelming mass.

An important fact is suggested by the above, by the correspondence, and by experience, viz., that land improvement is seldom found, except in two or three districts, as a cause of borrowing. Those who traverse the districts in their length and breadth know how rarely agricultural improvements are carried out; even the digging of wells is rare, even in Coimbatore, as compared with area. But in Coimbatore and in Tinnevelly it is stated that the ryots proper seldom dig wells till they have saved grain enough to pay the Wudders; they do not borrow, unless their stores run out before completion of the work, for " it does not pay," generally, to improve on borrowed capital. One experienced Deputy Collector of Tinnevelly stated in answer to the queries of the Madras Agricultural Committee that " he " has never met with cases of private loans for purposes of land improvement; the dangers " of borrowing are well understood; the class who would improve lands would put off im- " provements rather than encumber their property." Many other replies to the same queries as to the methods and classes of land improvement stated that these were few and feeble or " almost *nil* "; that " it is not cared for, not being sufficiently remuner- " ative " (that is, of course, at present prices of capital); that well-digging and breaking up fallows are the only general improvements. Similarly in the answers made to queries in the present enquiry, many correspondents do not even mention land improvement as a cause of borrowing. Dewan Bahadur Ragunatha Rao Garu says that money is borrowed " at times for sinking wells; this, however, is very rare."

There seems no general desire for improvements and what there is, is checked by the dearness of money and by the difficulty of borrowing, say, Rs. 300 upon a field worth, when unimproved, perhaps Rs. 30, but which after improvement *may* be worth Rs. 300 to 500, but may also be worth nothing owing to failure of the improvement.

If this absolutely necessary development of agriculture is to be quickened, it can only be by cheapening credit, by stimulating a right use of it and by a system of insurance against loss, adding such arrangements as shall enable unimproved land to be safely taken as security for the improvement proposed upon it; this, except as regards insurance against failure, is done under the special Well Rules, and the method is habitually adopted by the Raiffeisen societies, and was the object of the ' Compagnie Foncière, ' started as a subsequent adjunct to the Crédit Foncier of France.

It is further to be remarked that money borrowed for one purpose, *e.g.*, improvements, is frequently misapplied; this is expressly stated in the correspondence, and is one of the difficulties with which money lending has to contend; money nominally borrowed for a well or for cattle is spent on a marriage, and the lender sees his security *pro tanto* lessened, if not vanish. This is precisely the case in Europe, and several classes of societies are expressly provided with methods to combat this tendency.

Purposes for which loans are given.—These of course correspond with the purposes of the borrower. But there are other reasons of the lender's own, *e.g.*, to obtain possession of lands or a preponderating claim in the management of an irrigation source; to get command of crops so that, as broker, he may be sure of filling his contract with merchants; to obtain local influence for purpose of faction or for mere self-aggrandizement. These are reasons additional to the ordinary purpose of gaining profit, and that profit as large as opportunity permits. On the other hand, as between ryot and ryot, credit is often a mere friendly office without documents or accounts based upon village good feeling, local knowledge of character and status, and even custom; it is not so long even in this presidency, since the revenue default of one ryot was regularly made good by his co-villagers. It is this survival of communal feeling which will go far to admit of Mutual associations.

Methods, Rates, Size of loans, Periods and Results—Methods.—The methods by which the money-lender obtains and keeps or ruins clients need not be described; the pictures

drawn by correspondents are precisely paralleled by the writings of economists in Europe. It is simply the modes of granting credit that will be mentioned. These are (1) by oral contract without security; for small sums only and generally by one ryot to another; (2) by unstamped chit (கடன்சீட்டு) also by ryots, for small sums; (3) by entry in the lender's accounts; this is usually by sowcars, traders and shopkeepers; (4) by promissory note; (5) by simple bond with or without security; (6) by simple mortgage; (7) by mortgage with possession, usually between ryots, seldom between sowcar and ryot; (8) by pledge of movables; (9) by advances on growing crops, usually by ryots and brokers; (10) by account current. The above are for money loans only; grain loans are given by ryots, sowcars and shopkeepers usually without formal documents by ryots; by account current or entry in the lender's accounts in other cases.

When money is lent, repayment may be in money or in produce: the latter is the case when the lenders are brokers as well as lenders; the vast cotton and jaggery trades are very largely, if not generally, carried on by advances made by middlemen with a view to securing the crop.

When grain is lent, the return is usually in grain; this forms the stock of the lender for subsequent loans.

It is said that the great bulk of petty rural, short term loans are either oral or on ordinary promissory notes; if the borrower is not of good status, *e.g.*, if his land is scanty and poor, his character somewhat improvident, he is frequently obliged to bring in a surety who jointly signs the document; up to 20 or 30 per cent of the value of a borrower's property mortgage deeds are not required, but when the aggregate amounts to above that sum, varying, of course, in each case, the lender demands a mortgage deed. It will be seen then that in many cases the mortgage represents the last of a series of transactions; in some districts, however, as in Tinnevelly, the mortgage is abused, being a mere means of obtaining short term loans of six months and less.

Rates.—This very interesting question is full of difficulty; the actual rates and the conditions that determine them vary in every district and in every village, and for the classes of borrowers, often of course with the individual, and according to the nature of the securty and often according to the intended use of the loan. As shown above, loans "à la petite semaine" in the case of petty trades may amount to 650 per cent. per annum; this rate of course is rare, just as the 2,000 per cent mentioned by one Irish writer, and the 730 and 1,200 per cent in an Italian Manual on Popular Banks; but 1, 2 and even 4 annas per rupee per month or 75 to 150 per cent per annum are well-known rates among servants, petty traders, &c.

The following is an example of a money-lender's usurious loan for a marriage; it is taken from a suit of 1892 in a District Munsif's Court. Three brothers required a loan of Rs. 85 for a marriage; they owned a small area of poor land. The loan was granted on a simple bond; Rs. 4 were deducted as commission, and no interest charged for the first six months; if not paid within six months, 100 per cent per annum was to be paid. Of course, as the lender knew, the money was not paid, and in three years the borrowers owed Rs. 85 as principal and Rs. 255 as simple interest. The creditor generously sued for Rs. 200 only and costs. The rate was treated as usurious. Here the necessity of the borrower and the unproductive use to which the loan was to be put, obviously sent up the interest.

The following is, *per contra*, an illustration of the risks run by money-lenders which lead to high rates; a Marwari of one district lent Rs. 8,000 on the mortgage of lands in the neighbouring district; the loan was not repaid and a suit was filed. Meanwhile the borrower allowed the land revenue to fall into arrears; the land was attached by the Tahsildar and eventually sold for less than Rs. 300, *free of encumbrances*, according to the provisions of Act II of 1864. In such case, had the sale been confirmed the Marwari would have lost his capital.

The following table is based on registration data; it is the result of an examination for the purpose of this report in ten districts, of documents relating to about 76,000 loans, chiefly agricultural. Typical villages were selected by the Registration officers in each circle examined, and the period is that of the three years ending 1891. The full table of the results will be found further on in this appendix:—

Classes of Document.		Rate of interest								Total.
		Six per cent and less.	Above 6 per cent and not exceeding 9 per cent.	Above 9 per cent and not exceeding 12 per cent.	Above 12 per cent and not exceeding 18 per cent.	Above 18 per cent and not exceeding 24 per cent.	Above 24 per cent	Not stated.	Miscellaneous.	
Mortgages of 100 and upwards.	Number ..	1,085	4,396	18,404	6,930	1,303	280	1,600	11	34,009
	Per cent ..	3·19	12·93	54·12	20·38	3·83	·82	4·7	·03	
Mortgages below 100.	Number ..	460	1,127	12,693	9,006	4,034	1,380	1,032	18	29,750
	Per cent ..	1·55	3·79	42·67	30·27	13·56	4·64	3·47	·06	
Simple bonds ..	Number ..	608	798	5,713	2,734	851	233	1,554	84	12,575
	Per cent ..	4 83	6·33	45·43	21·74	6·77	1·85	12·36	·67	

The chief points of interest are (1) that in mortgages about three-fourths bore interest between 9 and 18 per cent ; (2) that the mortgage loans below Rs. 100 paid considerably higher average interest than those above Rs. 100, about half of the former and one-fourth of the latter paying above 12 per cent ; no less than 18 per cent of the smaller loans paid above 18 per cent ; (3) that simple bonds on good personal security paid lower rates than small mortgages, more than 56 per cent of the former paying rates not above 12 per cent as against 48 per cent of the latter.

The next table is compiled from an examination of 3,167 small cause suits in the Courts of District Munsifs and 267 in the Courts of Village Munsifs for 1894. About 100 cases in each of 32 District Munsifs' Courts were taken in consecutive order, not selected, half of them being for sums below Rs. 20, and the other half above that sum.

Table of results of the examination of 3,167 *Small Cause Suits in* 32 *Courts of District Munsiffs in* 1894.

Number of Loans.	Lender's caste. Name of				Borrower's occupation. Number of			Interest on loans below Rs 20.		
	Brahmins	Chetties and Vaisyas.	Muhammadans.	Others.	Ryots and Cultivators.	Traders	Others.	Below $6\frac{1}{4}$ per cent.	Between $6\frac{1}{4}$ and 12 per cent.	Between 12 and $18\frac{3}{4}$ per cent.
1	2	3	4	5	6	7	8	9	10	11
3,167 .. .	491	777	216	1,380	1,760	401	581	77	54	388
Percentage .	17·13	27 14	7·55	48·18	4·18	14·63	21 19	5·94	41.67	29·94

Number of Loans.	Interst on loans below Rs. 20—*cont.*			Interest on loans above Rs. 20.					
	Between $18\frac{3}{4}$ and 25 per cent.	Between 25 and $37\frac{1}{2}$ per cent.	Above $37\frac{1}{2}$ per cent.	Below $6\frac{1}{4}$ per cent.	Between $6\frac{1}{4}$ per cent and 12 per cent.	Between 12 and $18\frac{3}{4}$ per cent.	Between $18\frac{3}{4}$ and 25 per cent.	Between 25 per cent and $37\frac{1}{2}$ per cent.	Above $37\frac{1}{2}$ per cent.
	12	13	14	15	16	17	18	19	20
3,167	156	106	29	50	529	308	92	38	9
Percentage ..	12·03	8·18	2·24	4·87	51·56	30·02	8·97	3·70	·88

It will be seen that of the borrowers 64.18 per cent were cultivators, 14.63 traders, and 21.19 were " others." Of loans below Rs. 20 no less than 41.67 per cent paid less than 12 per cent and 29.94 between 12 and $18\frac{3}{4}$ per cent : in other words seven-tenths of the loans bore interest at between 6 and $18\frac{3}{4}$ per cent , while about two-tenths paid interest above $18\frac{3}{4}$ and below $37\frac{1}{2}$ per cent. As expected, loans above Rs. 20 and below Rs. 50 paid somewhat lower interest, 82.58 per cent or above eight-tenths bearing interest between 6 and $18\frac{3}{4}$ per cent , and only 12.67 per cent or one-eighth paying between $18\frac{3}{4}$ and $37\frac{1}{2}$ per cent. These figures, though they show high interest, do not display that gross usury of which so much is heard, and it is to be remembered that they are in no way selected cases, but claims made all over the presidency in the ordinary course of business, and taken simply in the order in which they were recorded. They differ very widely from the results of many money-lenders' suits as published in the English newspapers, and as recorded in certain recent articles (1894) in the *Pall Mall Gazette* and in the *New Ireland Review* (July 1894), and in many periodicals, reports and works relating to the European money-lender, where interest at 200, 500, 730, 1,200 and even 2,000 per cent is spoken of, while the shopkeeper in his capacity as supplier *plus* lender is represented as charging immense credit prices upon goods often poor and adulterated, with excessive interest upon the unpaid accounts.

Nevertheless the rates in the tables taken as instances of the general rates of the presidency are far too high; it is impossible that ryots can thrive with credit at such prices, even assuming that the transactions are all fair and open, which unfortunately is not the case.

For a presidency with a highly-civilized administration, a stable and equitable government, an internal peace practically unbroken in the century, communications of all classes—railways, roads postal and telegraphic—fairly good and far better than those of Europe generally forty years ago, and than in many parts to this day, a settled law and good courts, a peaceable, steady, and orderly population, a large external and internal trade, a mercantile class of all nations nowhere surpassed, a surviving municipal or communal life of no mean stability, why is it that credit is in so rudimentary a stage and why are rates so disproportionate both to the settled condition of the country and to its needs?

The latter question must probably be answered by the former; rates are unduly high because there is no real banking system; money-lending is not banking, and the indigenous system of bills (hondies) is not credit but mere mercantile exchange; hence credit is based

not upon the rates of the Indian market meredy, but upon those rates, *plus* the influence of custom, monopoly, opportunity, the stint of capital due to the absence of the deposit-collecting function of banks, and the risk and trouble of making, booking and collecting small loans. But experience, as noted in these studies (*see* especially the results of the Italian Wollemborg Loan societies) shows that local banks can lend at 6 per cent. where the local charge of the usurer is 60.

On the rates themselves in the first table many explanations are needed: (1) bonds generally contain penal clauses, stipulating for additional and heavy rates in case of default and for interest upon interest; (2) these documents, especially mortgages, generally represent not a mere individual transaction, but the result of a series, of which previous interest and compound interest are large and often chief factors; (3) discount or commission is frequently deducted in addition to the interest expressed; (4) the interest is often deducted in advance to the advantage of the lender; (5) under the 'Kanthu' system greatly in vogue in some districts, *e.g.*, Salem, the interest for the full period on the full sum is deducted in advance or a premium is added, while the debt is repayable by instalments, usually monthly over ten months, no counter-interest being allowed; in this way 10 per cent. nominal approaches 20 per cent. actual. The variations in this system are, of course, numerous; the instalments may be daily over 300 days or monthly over three or four months; *e.g.*, Rs 20 are borrowed, 4 added as premium, and the whole made payable in four monthly instalments, a very handsome rate of interest; (6) the amount is frequently overstated; (7) there are numerous unexpressed services and dues which custom requires of the debtor; *e.g.*, presents of fodder, vegetables, delicacies, services in repair of tanks, &c., services in faction disputes and in the giving of evidence.

On payments in produce it is noteworthy that 25 per cent. is the regular, almost universal, addition demanded; it is true that harvest prices are cheaper than those of seed time as regards food crops, but, *per contra*, the loan is only for six months, while, as a matter of fact, the lender either stores the grain for a few months till the market is again high, or he lends it once more to the very same debtors. The fall in prices is not the only reason however for high rates; the reasons are (1) that grain sometimes deteriorates in keeping, (2) that the transactions are small, (3) that the lender, if not a co-ryot, must watch the borrower sharply and insist on payment at the threshing floor; if once removed the lender's troubles begin; (4) that the rate is a matter of custom, the origin of which is immemorial.

It is said that grain for seed is always repaid with larger interest amounting frequently to cent. per cent.; this is partly because seed grain is, or is supposed to be, of good quality, partly because the amount is small.

Again, while returns of food grains are moderately—so to say—in excess of the loan, those of special products are often ruinous, on the pretext of guarding against a fall, it is common in the cotton tracts of the south to lend Rs. 10 in November-January on condition of receiving a pothi of cotton at harvest in April-June; the pothi is never worth less than Rs. 15 and is often Rs. 18; hence the cotton ryot, a fairly prosperous peasant, whose crop very rarely fails, with his crop moreover usually in good progress, and settled by January at all events, with good cattle and valuable land as further securities, has to pay Rs. 5 to 8 for the use of Rs. 10, *i.e.*, 50 to 80 per cent. for six months, or 100 to 160 per annum. This is simply due to the middleman system which is a custom; the middleman may be another ryot or trader. In the jaggery tracts of Southern Tinnevelly advances are made against jaggery on still higher terms, for the Shanars or ignorant and poor. It is perfectly clear that rates of interest have very little to do with market rates; they are the product of custom, monopoly, opportunity acting on ignorance and inability to combine.

In the matter of cattle credit the ryot is doubly hampered. First he buys young cattle at credit, *i.e.*, at very high prices; he has the liberty of paying by instalments, and he pays high for the privilege; if the cattle die he bears the loss of course. On the appointed dates the dealer's agent calls for the money; the ryot is frequently behind hand; by custom he is then obliged to feed and shelter the agent till he can pay. Failing speedy payment a second agent is sent and perhaps a third, till the ryot in despair resorts to the local money-lender and raises a usurious loan to pay for animals bought on usurious credit. This practice obtains specially in the Ceded Districts, and the same is told of cloth traders in Chingleput and elsewhere. The coercive process is doubtless a modification of the old dharna system.

High rates are of course due partly to bad security, and to uncertainty of recovery; one reason at least why sowcar's charges are higher than those of ryots is that the money-lender is often resorted to only when village credit is insufficient and exhausted; another that it is often for unprofitable expenditure; another that a ryot is often ready to cheat an outside lender, whether Sircar or Sowcar, if he thinks he can do so, while the village system prevents his attempting it with co-villagers.

In the method of recovery it is notorious that the expenses of the courts and the chances of evasion, delay and bad debts are so considerable, that the lender is forced to discount these risks by a high insurance rate. There are many necessary expenses in going to court which cannot appear in the bill of costs, but which nevertheless must be paid for in time or money, while it is not uncommon for the ryot, especially under the ill advice of a low class of so called pleaders to practise every evasion which may delay or reduce the lender's chance of recovery.

Size of loans.—This is extremely small as a rule; without going into details it is obvious that when 335,321 mortgages average Rs. 194 in individual amount, about half averaging Rs. 342, and the other half only Rs. 44, the loans are amongst the smallest in the world; allowing for the difference in the value of money they are very comparable with average loan values on rural mortgages in France as ascertained in 1841.

But these are all mortgages and teach very little as to the mass of ordinary credit. This is known to be in very petty sums or quantities, often only a few measures of grain, or a rupee or two at a time, the whole aggregating perhaps Rs. 20 or 30 in a season. The immense number of suits in the Village Courts of this presidency, averaging annually above 50,000 and all necessarily below Rs. 20 in amount, and the numerous similar suits in the Courts of District Munsifs, show the petty nature of much of the business; many of the suits are for sums of below Rs. 10. In this matter the table of about 3,000 small cause suits which will be found in this appendix may be consulted; many hundreds of those below Rs. 20 were for sums below Rs. 10. In fact, 59 per cent of all the civil suits of this presidency, exclusive of those tried in Village Courts, and 69 per cent. inclusive of such suits, are below Rs. 50 in value, while no less than 45 per cent inclusive of those i Village Courts are for sums below Rs. 20 inclusive of the interest due. Taking four Nidhis of the Ceded Districts, partly urban, partly rural, as examples, it is found that out of 1,332 loans on simple bonds or promissory notes, 61 were for sums below Rs. 10, 236 between Rs. 10 and Rs. 25, and 453 between Rs. 25 and 50; more than half, therefore, were for sums of Rs 50 or under, altogether irrespective of the numerous small lot loans usually of Rs. 5 or Rs. 10 Remembering that it is not generally the poorest classes that join these Nidhis, the extreme smallness of the mass of rural loans may be gauged.

Periods of the loans.—This is a most important item in considering the effect of loans; mortgages upon demand or for short terms are or may be real engines of oppression; they must be frequently renewed, where the cost of stamps, writing fees, witnesses, registration, &c., comes to a very large sum, while they can be used to coerce the debtor into signing any terms on the conclusion of every period. It is moreover absurd to expect any loan, even for land improvement or purchase of cattle, to replace itself in one or two years. Hence when it is seen from the table of registration statistics in this appendix that the bulk of all registered loans, whether mortgage or simple, either on demand or for periods of one year or less, the significance of the fact to the borrower will be appreciated. In Tinnevelly nearly 9 per cent. of the mortgages, especially the small ones, are for periods of six months and less, and nearly 56 per cent. are for periods of from six months to one year; hence two-thirds of all mortgages are for less than one year. In South Arcot nearly three-tenths (28½ per cent.) of the mortgages are on demand; in North Arcot four-tenths, in Nellore seven-tenths, in Bellary eight-tenths, while these figures should probably be increased by adding in those for which no term is mentioned. The average term for mortgages without possession is about two years, and with possession about five years.

All ordinary village credit is for a term not exceeding one year, all grain loans being understood to be for six months, or the full length of a crop season.

Results.—Whatever the differences in opinion of correspondents as to the exact rates charged, there is none that the results of borrowing are generally of little profit though doubtless of supreme importance to the borrower. Probably this does not apply to the numerous small transactions between ryot and ryot, to the borrowing of seed grain, and so on, though even here accommodation is heavily paid for; but in general it is meant that terms are so high that once in debt a man seldom thoroughly extricates himself; so large a share of produce goes to the lender, so frequent are short crops on unimproved land, hastily and poorly cultivated, that even without actual usury, once in debt, always in debt, is the rule; the beginning of borrowing is like the letting out of water, and a mortgage is generally the beginning of the end of the ryot's freedom. The general state of indebtedness will be discussed hereafter more fully, but the above description of the credit systems of Madras shows that it is impossible to gauge that indebtedness or the extent of annual borrowing with any certainty. There are millions of annual transactions of which the registration statistics contain no record, which in fact are evidenced by no document, or at best by an illegal (unstamped) chit, or by a mere entry in accounts which, owing to the want of legal provision for supervision, are absolutely unchecked It is also clear that there is in the villages a vast amount of trust—both confidence and credit; it is an imperfect form and cannot supply the greater needs of agriculture and development, but suggests a hopeful future, promising the possibility of Rural credit and Agricultural associations.

Correspondents paint the social results of money-lending in very dark colours; greedy unscrupulous, fraudulent, powerful, the money-lender is said to work deliberately to get the ryot into his power, to tempt him to borrow, to avoid him when he is ready to pay, to press him when he is in need, to exploit him in every way; when in his power the ryot is his slave and must keep him in good humour; he has to cultivate the products required by the mortgagee on the latter's own terms; he has to give services of all sorts including those of false evidence if necessary. This is borne out as regards some localities by experience some of the black cotton soil villages of Anantapur were in a chronic state of riot and unrest owing to the harassment of the ryots, and their resentment at the usurer whose strong tower-like houses are common features in a village; the wet lands under the splendid tanks of the district were in some cases entirely in foreign usurers' hands, and so late as 1888 one

of the chief money-lenders of the district was murdered by debtors in open day on the high-way. There are moreover tracts in Tamil districts where money-lenders abound, and where they certainly have been local masters of the country side; they have been known to compel labour, to turn out the ryots *en masse* for the duties of the corvée, to hold regular courts (kuttam) for the punishment of the refractory, and as one himself is alleged to have said in a complaint of extortion and torture by an illegal kuttam, to conduct affairs "in the good old Carnatic fashion." Much of what is alleged is confirmed by the exact parallel found in Europe, where a change of name would equally describe an Indian scene.

But whether the clutch of the money-lender is as universal or even general as it is undoubtedly close, is a different question. Observers are apt to apply to the mass the cases, necessarily few, which come under their own observation, and which are the more distressing and exciting as they generally relate to friends, acquaintances, or dependants, or are the more noticeable because they happen to be, or by reason of partiality appear to be, extremely inequitable; exceptional cases the more prominent just because they are exceptional, are taken as examples of general practice, and usury "à la petite semaine" as practised against men of little status, property or credit, is quoted or accepted as typical of money-lending in general. For instance, some of the most indignant remarks as to the money-lender have been received from the Ceded Districts, but they have usually been from correspondents whose immediate dealings were almost entirely with the poorer classes rather than with the general mass of ryots. Usury there is both severe and frequent, but the mass of the ryots are not so dependent on, or exploited by the usurer as is supposed.

For example, the mortgage is the culminating form of credit by the usurer, and the following table for 1890-91 shows that, compared with population, the number of mortgages in the Ceded Districts is insignificant. Much usurious credit is practised without recourse to mortgages, but no ryot is hopelessly involved, whose land is not yet encumbered provided the land is or can be made worth anything; much of the land in the Ceded Districts is very valuable by nature, position and produce, and the mortgage condition of the districts discloses no great number or amount of encumbrances. In fact many bonds in Anantapur, as examined for income-tax purposes, bear only 6 to 9 per cent. interest, and several money-lenders boast that neither they not their fathers have ever been in court; they prefer to keep money idle rather than lend on bad security. Here again is proof that the development of security by association is a necessary preliminary to sound and abundant credit:—

District.	Population in 1891.	All mortgages, with and without possession.	Percentage of population to that of presidency.	Percentage of mortgages to those of presidency.
Ceded Districts (Kurnool, Cuddaph, Bellary and Anantapur).	3,695,000	10,580	10·3	3·15
Whole presidency	35,606,000.	335,321	..	..

Hence one-tenth of the population of the presidency has less than one-thirtieth of the mortgages. It is noteworthy that annual presidency mortgages number only about 1 per cent. of the population; taking the average term as three years, this means that about 3 per cent. of the families, or, say, 15 per cent. of the total population, have entered into mortgage debts, so that, allowing for numerous urban and house mortgages, rural property is not heavily involved. Moreover the tables of rates given above show that the general debt, whether mortgage or personal, while bearing heavy interest, is not so cruelly usurious as is supposed by many who notice occasional, but, over the whole presidency, too numerous cases of grossly usurious contracts and entanglements.

The results of the credit system in the matter of indebtedness will now be discussed.

Indebtedness in the Madras Presidency.—The indebtedness of the Madras Presidency is a subject on Which little is known. Some believe it to be overwhelming, applying possibly, their reading of Deccan and other difficulties, cases which have come under their own observation, or their knowledge of special localities, to the general mass of the presidency; others regard it as a very moderate, if not decreasing burden. The following paragraphs will deal with such data as are available.

In the first place there are the statistics of the Registration offices; the following table gives details of the transactions in immovable property in this presidency:—

Year.	Sale or exchange.				Mortgages.			
	Rs. 100 and upwards.		Below Rs. 100.		Rs. 100 and upwards.		Below Rs. 100.	
	No.	Value.	No.	Value.	No.	Value.	No.	Value.
		Rs.		Rs.		Rs.		Rs.
1889-1890	95,434	3,48,19,491	125,720	53,59,391	155,967	5,15,14,356	155,236	67,01,384
1890-1891	101,185	3,65,98,176	129,604	55,09,788	168,983	5,77,73,728	166,338	72,72,228
Average value, 1890-1891	..	361	..	42	..	342	..	44

The average value of all sales in 1890-91 was Rs. 182 and of mortgages Rs. 194.

Of the 335,321 mortgages for 1890-91 (other years are in similar proportion), 101,850 were with possession. In the Tamil districts this is interpreted to mean that the mortgages are chiefly between ryot and ryot; the money-lenders, it is said, do not much care for this class. In the Ceded Districts, as in the Deccan, this does not hold good, but then there were in the Ceded districts (Kurnool, Cuddapah, Bellary and Anantapur) only 2,922 of this class or $\frac{1}{35}$ of the total. Mortgages with possession are usually for longer terms than simple mortgages; slightly over half are for five years or less; about $\frac{1}{10}$ are for twelve years and upwards.

The simple mortgages in 1890-91 were 233,471. These are, in most cases, of very short duration; excluding those without term expressed, there were 184,114, of which 88,769, *i.e.*, about $\frac{1}{2}\frac{1}{3}$ or nearly half were of one year or less; 123,786 or about $\frac{2}{3}$ were of two years and less; 149,904 or nearly $\frac{5}{6}$ were of three years or less.

The meaning of these figures and their bearing on Madras indebtedness will now be examined. If the average duration of mortgages with possession taken as one lakh, be taken as five years, and that of simple mortgages taken as two lakhs as two years, the average duration of all mortgages will be about three years.

Now the value of all mortgages in 1891 was just $6\frac{1}{2}$ crores; hence the total registered mortgage debt of the presidency existing at the time would be something like $6\frac{1}{2} \times 3 = 19\frac{1}{2}$ crores. It will not be far out, speaking roughly, if the existing Madras registered mortgage debt be put down at 20 crores. No figures are available to show how much of this is urban, but, as the Madras town mortgages alone were 30 lakhs in 1891, and mortgages are very frequent in towns, probably the rural land mortgages are not more than 18 or 19 crores.

The following table gives more accurate figures for 1889-90 and 1890-91; the number of mortgages divided according to term (*see* later on in this appendix) has been procured, mortgages being entered in separate columns " under one year, " " between one and two years " and so on up to " 12 and over. " Hence it is only necessary to multiply the number in each column by the number of years at the head of the column and to add the results, to obtain the probable number of existing mortgages; on multiplying their products again by the known average value of mortgages, the product will be the gross mortgage debt of the country. There are, however, several difficulties: (1) the number of mortgages paid off before due date is unknown; this is always considerable, and should *pro tanto* reduce the number; (2) the exact mean duration under each column is uncertain; *e.g.*, between two and three years, the bulk may be of two years, or of two and-a-half or of three years; the number of items is, of course, immensely altered, according as the smaller or the larger multiplier is taken. Accordingly the minimum, viz., the figures arrived at by taking the smaller, and the maximum, viz., that found by using the larger multiplier, are both entered . Those again of above twelve years have been multiplied by 12 and 20 to find the minimum and maximum respectively. Again mortgages without term are numerous; for them the mean number of years belonging to that class of mortgage (simple or with possession) has been used.

The result is that the minimum number of existing mortgages is 907,805, and the maximum 1,300,386, both however subject to a deduction for mortgages paid off before due date. Multiplying these figures by the mean value for five years of each group (Rs. 326 for mortgages of Rs. 100 and upwards, and Rs. 44 for smaller mortgages), the minimum mortgage debt is Rs. 16,93,03,588, and the maximum Rs. 24,50,08,116, both subject to the above deduction. The means of the two sets of figures are 1,104,095 and Rs. 20,71,55,852 respectively Hence 21 crores is about the total probable value of the 11 lakhs of mortgages now in existence, subject however to the deduction above noted:—

Nature of mortgages.	Number of existing mortgages of Rs. 100 and upwards.		Number of existing mortgages below Rs. 100.		Indebtedness involved in mortgage of Rs. 100 and upwards.		Indebtedness involved in mortgage below Rs. 100.		Total indebtedness by mortgage,	
	Min.	Max.	Min.	Max.	Min.	Max.	Min.	Max.	Min.	Max.
					Rs.	Rs	Rs.	Rs.	Rs.	Rs.
Simple	225,731	3 1,389	159,487	252,310	14,95,44,024	21,70,91,876	1,97,59,564,	2,79,16,240	16,93,03,588	24,50,08,116
With possession ..	232,993	314,537	289,594	382,150						
Total ..	458,724	665,926	449,081	634,460						
Mean ..	..	..	..	..	18,33,17,950		2,38,37,902		20,71,55,852	

Now in this presidency in 1893-94 there were in actual occupation, for Government and Inam lands only, 29,597,272 acres of land, including 5,185,972 of fallow under puttah. The exact area of zemindari lands under occupation is not known, but is something above 8,000,000 acres on the whole about 38,000,000 acres are under holding. Of this, at least, 8,000,000 acres are irrigable, including about 1½ million acres under wells, for in 1893-94, 5,912,249 acres were actually irrigated in Government and Inam lands alone. The value of the irrigable lands cannot be less than Rs. 200 per acre or 160 crores, while 30,000,000 acres of dry lands at an average of Rs. 15 per acre are worth at least 45 crores. The above rough figures do not include the value of nearly half a million wells, a vast number of private channels and tanks, and numerous buildings both for residence and for the farms; altogether the real estate of the rural tracts, exclusive of town lots and buildings, cannot be less than 220 crores. Hence a total existing rural mortgage debt of from 18 to 20 crores is heavy, but in no way alarmingly so.

This result renders the aspect of Madras mortgage debt rather less formidable than a casual glance at the totals would suggest. Those acquainted with European mortgages, especially on the continent, where the Land banks have accustomed people to forty and fifty year terms, would consider an *annual* mortgage debt of 6½ crores in 335,000 loans as overwhelming, incorrectly supposing it to represent about 130 crores at an average of perhaps twenty years per mortgage, since in Europe such a term would be moderate; the loans of the Crédit Foncier of France are for much longer terms, as also those of all Land banks. In some countries, *e.g.*, Switzerland, Denmark and Sweden, the known mortgage indebtedness is 40 per cent. of the capital value; in France it is at least £660,000,000 *plus* £80,000,000 owed to the Crédit Foncier alone; in Prussia the total is stated (1894) at about £500,000,000 on landed estates and peasant holdings with an increase in the last seven years of £45,000,000; the total for Germany is probably much above 600 million sterling. Allowing that money in Madras is five times dearer than in continental Europe, the Madras debt of, say, 21 crores would represent a European debt equivalent to £105,000,000 sterling, for a population not much less than that of France which has £660,000,000. In Switzerland the canton of Berne, much spoken of in the matter of banks, has a gross population of 536,769 including the district of the Jura; its mortgage debt in 1886, *exclusive* of the Jura, was £16,000,000 (round figures) not far short of the total Madras debt; if Berne had the population of Madras, its mortgage debt would be above 1,070 crores, or ten times the Madras debt, taken, for comparative purposes only, owing to the different value of money as 105 crores. These figures are given not to minimize the gravity of Madras indebtedness, but to give a dry view of its position; in order to advocate reform, it is unnecessary, if not unwise, to take an alarmist view of affairs.

Madras resembles Switzerland in the nature, though not in the amount of its mortgages. It has been elsewhere shown that in Switzerland mortgages are much resorted to even for very small loans and of very short term, such as would elsewhere be effected by personal credit; this is owing to the proximity of banks and good mortgage laws and cheap fees. In Madras the bulk of the mortgages are similarly for very short terms, and for very petty sums; they are, in the southern districts, largely resorted to for securing simply current transactions, and are not necessarily the evidence or result of prior debt or serious entanglement. Here again there is cause for regarding Madras mortgages less seriously than first views would suggest.

But it must be stated *per contra*, that these Madras mortgages disclose a most imperfect credit organization and extremely costly methods; they are not the result as in Switzerland, of very low stamp and registration fees, and of universal banking; on the contrary, they are the result of the absence of banking, so that men requiring 50 rupee loans have to give property as a guarantee, with the heavy resulting charges of stamp duty, registration fees, witness dues, batta, &c.; mortgages are unnecessarily expensive and cumbrous. It is to be borne in mind that 166,338 of these were for sums averaging Rs. 44, on which the above charges, wholly exclusive of interest, commission, and loss of the borrower's own time, could hardly be less than Rs. 3 or 4 (stamp duty, writing fee, registration charges, witness fees for bond and batta for journey to registration office, &c.).

As regards the smallness of transactions; in 1890-91 just half were for Rs. 44 each; the other half average Rs. 342; the average of all is Rs. 194. Here then is the measure of the transactions which the banks will have to undertake, and here is the crux of the problem how can banks afford to take up rural credit business when the average of the larger transactions is only Rs. 342, of one-half only Rs. 44, and of all only Rs. 194? And if this is the average of the mortgage business, usually the most important as to individual size in a country of small proprietors, what must be the average of the immense amount of business unsecured by mortgages, which banks, to be successful, must equally undertake? Can any Central bank or any bank, working by paid branches or agencies, either make a profit out of such small business or manage to issue such small loans at rates,—considering the cost of enquiries, &c.,—which shall attract a clientèle?

Again, these mortgages show a rapid increase; in 1886-87, ten years after the new law came into force, mortgages numbered 258,122; in 1892-93 they numbered 400,235, or an increase of 55 per cent. Moreover this was not seriously due to the law granting priority to registered documents of less than Rs. 100, for the increase in documents above that value which were always compulsorily registrable has practically kept pace with that of

investments below Rs. 100; the following table gives the figures, the increase being steady and continuous:—

Year.	Mortgages of Rs. 100 and upwards.		Mortgages below Rs. 100.	
	Number.	Percentage of increase.	Number.	Percentage of increase.
1886-87	130,02	..	128 096	..
1892-93	200,628	54·3	199,607	55.8

More perfect and popular registration accounts for much of this, but not for all; nor does it appear from the statistics compared with the seasons that prosperity can be claimed as the cause of increase.

The term of the mortgages is usually short; in simple mortgages where the term is mentioned, about $\frac{1}{2}$ are of one year or less, nearly $\frac{3}{4}$ are under two years, and nearly $\frac{7}{8}$ below three years; the proportion is even larger if mortgages without term are counted as averaging two to three years. "With possession" the average period is about five years, $\frac{1}{2}$ being of five years and less, $\frac{1}{2}$ above five years.

Now the number of holdings of Government land in the presidency is about 2,850,000 with 4,600,000 ryots, to whom about one-third more should be added for zemindari ryots. Hence there are about 3,800,000 holdings with, perhaps, 6,000,000 holders in them. Inam holdings are excluded, for, unless enfranchised, they can seldom be mortgaged; it is probable too, that in the northern zemindaris, comparatively few mortgages take place, owing to the views there subsisting as to tenure; moreover since an immense mass of land now in occupation in small holdings at from 4 to 8 annas per acre is so wretched and unimproved as not to have any sale or mortgage value, the actual mortgageable or valuable land is far smaller than the holdings indicate. Hence, a burden of 1,104,095 mortgages, valued at 21 crores on the above number of holdings, is a serious, though not necessarily alarming, feature, and as the whole urban debt is also included in the above totals, the rural debt is *pro tanto* reduced. For 7,000,000 families it means Rs. 30 per family; more probably it means an average mortgage debt of Rs. 190 to 1,100,000 families or perhaps one-fourth of the puttah holding families. At 12 per cent. on 21 crores, the annual interest payable is $2\frac{1}{2}$ crores, to which must be added 30 lakhs for other charges for stamps, &c., at, say, 5 per cent. on an annual 6 crores, in addition to the cost of receipts, discharges, &c., on an annual repayment of 6 crores. Altogether the mortgage debt cannot cost the population less than about 3 crores annually, and it is probably considerably more costly, since the interest on small loans is often much higher than 12 per cent., while unpunctuality, a very frequent fault, always entails penal interest. If to these charges again we had the immense cost of litigation, not merely that which comes to suit in the regular courts, but that in which only preliminary steps are taken, and that which forms the subject of prior arbitration, &c., it is clear that this debt is no light burden on the resources of the people.

Finally, the shortness of the mortgage period is a serious matter. Assuming the most favourable case, viz., that the mortgages under one year are paid off at each harvest, being really loans for current expenditure such as ought to be based on personal credit, the mass which remains is probably a real encumbrance, the result of prior debts. Now, granting again the most favourable assumption (an utterly untrue and absurd one) that all these mortgagss were raised for improvements and giving the word "improvement" its widest sense, how is it possible that the mortgagors can hope to improve their position by such short term mortgages? In improvements capital is permanently sunk and can only be recovered from the profits arising from the improvements; what improvement is there which will enable capital to be restored in two, five, seven or ten years, wtih the addition of interest at not less than 9 to 12 per cent. exclusive of all penalties for short payments and delays? If, however, the money was not wholly spent on improvements, but was largely the result of prior debts of maintenance, for social expenditure, litigation, payment of assessment, rent, &c., how much less can the mortgage be paid off in a short time? We arrive then at the result that much of this mortgage debt means simply more mortgages deeper entanglement and finally expropriation. Also at the conclusion that the mortgage system needs reform, so that mortgages for very long term may be possible, and thus give ryots a chance both of making improvements and of redeeming their debt.

So far only registered mortgage debt has been dealt with. It is not probable that much mortgage debt exists unregistered, and the figures given may fairly be held to include the whole class. But as regards all other debt, there are absolutely no data. The few bonds registered are nothing; the immense mass of debt on pledge and personal credit cannot be known. Expert opinion, expressly consulted for this report, considers that perhaps three-fourths of the rural population borrow, during the crop season for maintenance, seed or other necessities, either grain or money, but chiefly the former at, perhaps, Rs. 15 or 20 per family per season, the invariable rate for grain loans being a 25 per cent. addition on repayment at harvest. It can hardly be more than this, for an immense number need no loans but lend to others, and as the loans are in grain and are the supplementary rather than the sole means of livelihood, Rs. 20 are probably a sufficient estimate; the records of

many suits show borrowings much smaller than the above, suits for Rs. 6, 10 or 15 or the value in grain, being common. In the Anantapur district 1,000 or 1,200 seers (2 lbs.) of grain worth Rs. 30 or 36 are said to be an ordinary borrowing for a ryot family of ten persons for six months; in addition to this, an immense number whether ryots, labourers, village and other artisans, small shopkeepers and traders, borrow cash for which however there are no trustworthy data, for though the amount due in a village may be approximately arrived at, it is impossible to say how much of the total is an annual borrowing or is merely the amount outstanding on the annual balancing of accounts. If two-thirds of the *total* population live, cultivate, &c., or half the year on borrowed money at Rs. 20 for the whole six months per family of five, nearly 10 crores of rupees would be required. To this must be added probably 15 crores for outstanding non-mortgage cash debts; in a large number of Anantapur villages such debt on simple bonds, promissory notes or account entries, was found to average several rupees per head of the population. In this district mortgages are rare, and it is probable that these non-mortgage debts are, in other districts, such as Tinnevelly, largely represented by the immense number of small short term mortgages there found. Nevertheless there must be a vast amount of non-mortgage cash debt, especially in populous districts; at Rs. 4 per head this would equal 14 crores. This does not mean 14 crores annually borrowed, but 14 crores as the total of non-mortgage cash debts outstanding from year to year, and probably does not represent more than half that sum annually borrowed. Hence, grain and non-mortgage cash debts together probably amount to at least 25 crores outstanding in any given year at the beginning of harvest, or 18 crores annually borrowed in this form, at from 12 to 24 per cent. This cannot be an exaggeration when the immense mass of advances against special products, of grants for maintenance, of loans for cattle, seed, and manure, of sums paid for revenue and rent, for social ceremonies, litigation, &c., and of mere shop purchases on credit is considered; probably it is understated. In the Punjab and Bombay it was estimated that only about 25 per cent. of the ryots were free from debt; that 50 per cent. were moderately in debt and 25 per cent. were deeply if not hopelessly involved. Hence in Madras, considering that the rural annual produce of the presidency is certainly not worth less than 60 crores, it is a low estimate to place the annual rural borrowings outside of mortgages at from 15 to 20 crores

Hence it must be concluded that the total existing mortgage debt of this presidency is about 21 crores, that the present annual amount averages about 7 crores, and in rural tracts probably about 6 crores, that the annual total borrowings—mortgages, simple debts and grain—calculated, or rather guessed at in the roughest way, must be about 25 crores. Again, adding the total existing mofussil mortgages of 20 crores to the total of borrowings on personal credit of, say, 25 crores, the mofussil population generally is in debt, exclusive probably of trading debts by shopkeepers, merchants, &c., to the amount, at the beginning of any harvest, of about 45 crores. If the average interest on this be taken as 15 per cent.—an assumption assuredly not too high considering the rates on registered mortgages below Rs. 100, grain debts, sums claimed in small cause suits, &c.,—rural Madras pays at least $6\frac{3}{4}$ crores annually as bare interest, and more probably 8 crores at an average of 18 per cent. If to this are added all extra charges for stamps, registration, fees, commission, brokerage, penal interest for unpunctuality, costs in litigation and arbitration,—the mere costs awarded in a series of small cause suits averaged 22 per cent. of the sums claimed—, it is certain that the annual cost of its borrowings to rural Madras is from 8 to 10 crores at least, or in other words, at the mean of 9 crores, 15 per cent. of the gross annual rural produce, taken as 60 crores.

This is the field for banks to occupy as regards present borrowings only; since however it is a postulate that one chief function of banks is to develop credit, so that the much-needed capital may be supplied to industry in general and agriculture in particular, it follows that this field may be indefinitely extended, while the cost of the individua transactions to the ryot is decreased.

The indebtedness of the ryot is no new thing; Munro in Madras and Elphinstone in Bombay showed, at the beginning of the century, how utterly sunk in debt the ryot was; nearly all the ryots, said they, depended on the money-lender for maintenance from crop to crop; the whole of the surplus produce went to the money-lender as payment of interest; as for the payment of the principal, it never entered their heads. But it was the produce and not the land that was the money-lender's security; immovable property was not sold for debt, and individual debt was therefore moderate in actual amount. As soon, however, as proprietary right was fully acknowledged, and prices rose while assessments sank, the burden of mortgage debt rapidly increased in amount. The following were alleged by the Deccan Riots Commissioners as the chief causes of agriculturists' indebtedness:—

(1) Poverty with unproductive soil, precarious climate, and irregularity of income;

(2) Ignorance and improvidence;

(3) Exravagance;

(4) Ancestral debt;

(5) Expansion of credit;

(6) Increase of population without corresponding increase of return from land

(7) Facilities for borrowing owing to influx of money-lenders;

(8) The Limitation Law as leading to renewals on usurious terms, including compound interest;

(9) The Revenue system of a fixed demand.

These reasons apply more or less forcibly to the state of Madras; on cause (6), it may be said that the produce of land, acre for acre, is possibly diminishing, partly from the exhaustive nature of the cropping due to the pressure of population, partly and perhaps chiefly, from the arid, shallow and utterly unimproved areas necessarily taken into modern cultivation. Cause (9) is of less importance in Madras than elsewhere, since very considerable annual remissions have always been given, especially in bad years, but, until lately, the kistbandi has often been too early as compared with harvest time and the marketing of the produce.

The same Commission found that the ryot class was deeply in debt, and that nearly two-thirds of the debt was secured by mortgage of the land. The usual dealings of the ryot with the sowcar were by a species of account-current, the sowcar finding cash for the ryot's needs and the latter handing over his crop at harvest. When the debt, in the usual way, became larger than the ryot's personal security warranted, his house, stock, &c., would first be mortgaged, and finally his land. The rate of interest on perfectly good landed security was commonly 18 per cent. and as the ryot's net profit was never so much as that, he could never pay off the debt, the load of which steadily grew, resulting in the serfage of the ryot, sometimes in actual slavery; many ryots were under bond to serve the sowcar, then wages being annually credited to their debts; sometimes the wife's labour was also included. The ryot was constantly in need of aid, and as the sowcar was "sharp in business, "and fully understands the weak side of the Kunbi (ryot) and the urgency of his necessities," there could be but one result to the transactions. The Commission added another reason for indebtedness, viz., the facilities given to the creditor in the recovery of debt, so that they could afford to give, or rather it was their interest to give, very credit to all classes of ryots, who thus fell into their power. It will be observed that the Commission noticed the tendency of the ryot to encumber himself when credit becomes facile without being safe. That is the experience of Europe even when, perhaps, especially when,, very cheap and ready credit has been extended to the peasantry by banks.

Happily, there has been no occasion in this presidency for a Commission based on acts of overt hostility between lender and borrower, nor are any precise and authoritative data available as regards debt in the presidency. But from the figures given above, it is clear that the load of debt borne by the Madras ryot is heavy, that its interest is high, and that it has been incurred with but a minimum result in profit.

To the above must be added the testimony procured for the purposes of this report. The actual indebtedness of the ryot was a question somewhat outside its scope, but an enquiry into credit necessarily touched upon indebtedness. Without supposing that the ryots generally are so badly in debt as believed by many, who are apt to treat exceptionally bad cases as examples of indebtedness and usury generally, there is ample proof of much indebtedness, and of gross abuse of monopoly and opportunity. Those who mix most with the poorer classes of ryots and labourers, those who note the indebted condition of the larger landholders, especially among those who do not themselves cultivate, are unanimous in asserting the existence not merely of indebtedness, but of very general habits of living on credit, of borrowing far too readily, and paying back far too unsteadily; of heavy interest amounting, in many cases, to deliberate, calculated usury; of grievous results in the impoverishment of borrowers due to want of forethought and unthrift on the one side and to unscrupulous exploitation on the other; of a tendency to mortgage any increment of gain such as that arising from the rise in land values, and of a tendency to spend disproportionate sums unproductively; of an absence of improvements or even of a desire for them. In fact the impression given is not so much of unscrupulous oppression on the part of money-lenders as of want of business education on the part of the borrowers; the want of an education which shall lead the ryot to restrain his tendency to borrow, which shall lead him to calculate the result of expenditure whether on improvements or otherwise, which shall enable him to combine both for the formation of capital, and for its right and equitable distribution. It is true that the money-lender, whether ryot or sowcar, is described as the absolute master of his clients, as tyrannical, hard, grasping, as obtaining and using his influence for base ends whether of village faction or of intrigue in the courts and offices: this is the natural result of the relationship in backward countries; the debtor has always given hostages to the lender who is but too apt, should occasion arise, to use or abuse his opportunities. But in admitting that the position is open to grave abuse, it must be remembered that the gross cases attract attention, while the ten thousand ordinary ones are unnoticed.

On the whole, indebtedness is general and its burden heavy; on individuals and on classes it is particularly so; the remedies lie in systematic and stimulative forms of banking which shall economically educate while assisting the ryot, and in the spread of general education of the ordinary sort with, as frequently advocated, special attention to the facts of rural economy.

CHAPTER III.—MADRAS LOAN SOCIETIES (FUNDS—NIDHIS).

These are numerous and some are permanent and well established. A few years ago there was a boom in these Funds, which started up by hundreds, perhaps several in a village

and perished as quickly as they rose. There are now about 135 in existence according to the lists of the Registrar of Joint Stock Companies, in whose office all must be registered.

The leading idea of these Nidhis is mutual credit; a certain number of men form a company under the Companies' Act and attract other members; these pay a monthly subscription for a given term; at the end of that term affairs are wound up and profits divided. Members may get loans from the society, repaying them with interest by monthly instalments. The idea is sound, but requires development; at present they are of very limited scope and fulfil merely the object of the similar class of Building societies of Great Britain and the United States, on the model of which, even to the verbal adoption of their rules, they have been founded. It is curious that these societies, as their history will show, might almost have been developed directly from indigenous practices, viz., from the Kuttu-chit system, a fact which forms a striking argument in favour of the suitability of the Fund system to the presidency, and gives promise of its great future development as a method of thrift and credit. The enormous development of the present system in England, and especially in the U.S.A., where it appears to be rivalling the Savings bank, is a proof of its general suitability to small folk, and it can probably be adopted to suit rural and agricultural needs. (For a description of the Building society system *see* ' Building societies ' *supra.*)

History.—The Nidhis, as now found, originated in Madras, in the Fund called the Sudder Court Fund, open to officials only; it seems to have been started about the middle of the century. But the foundation principle, viz., that of association for mutual credit, is found in the indigenous ' Kuttu-chittu ' system, which is universal throughout the presidency (*see* postscript to this chapter).

This latter system depends upon (1) association; (2) confidence; (3) honest dealing, and its universality speaks highly for the general honesty of Madras villagers, for the power of the village and caste system to prevent fraud, and for the possibility of a development in Madras, of European associations based upon similar principles. Briefly it is as follows: a number of men unite to subscribe periodically a small sum each; say 50 men agree to pay Re. 1 per month for fifty months; each month Rs. 50 are subscribed and lots' are drawn for total sum; the winning lot takes the pool; next month the same fifty subscribe, but in drawing for the pool, previous winners are excluded; this continues for the whole fifty months till each subscriber has received Rs. 50. This practice—a necessary system where there is no such thing as even a Savings bank, and where deliberate hoarding for many months or years, is a most difficult operation—gives men the use in lump of a considerable capital, repayable by small and easy instalments; it is most useful for building houses, starting a shop, buying a pair of cattle or piece of land, &c.; it is clearly the result of the village self-contained system in a country devoid of banks and communications, and where permanent emigration, even to other districts or villages was till of late, perfectly unknown. It is said that, whether from honesty or fear of the consequences, the system is never abused by winners prematurely withdrawing from subscription. It will be observed that there is nothing of a lottery in this proceeding; the lement of chance appears only in the order in which the subscribers obtain the pool; every subscriber obtains it in turn; it is not a gambling transaction in which one person obtains a given sum by mere chance to the *loss of others*; it is no more a gamble than the drawings by which in England, as in Europe, it is decided what particular debentures shall be paid off.

A further development, however, is next found; the subscribing members, or more usually the promoters of the Fund, desire to obtain definite and increased profits for themselves, drawn from the need of the subscribers; instead, therefore, of drawings for the pool, it is put up to auction, in lump or in lot; the lowest bidder takes the amount, that is, the one who bids the lowest sum below Rs. 50, say 40, obtains only that sum, but gives a chit or promissory note for Rs. 50; the difference, Rs. 10 is divided as profits among the other members. This is similar to the Building societies system where loans are knocked down at auction to the man who bids the highest interest or the largest premium; in both cases, it is apt to become an exploitation of need or of recklessness; the man most in need of money has to pay as high as possible for the accommodation. It has been common in India as elsewhere to get up societies for the sole purpose of providing the promoters with a living; the so-called " directors " get together the subscribers, and withhold Rs. 2 in every 50 rupees as their own remuneration; these are not regular village or communal institutions but outside speculations; in some cases, the borrowers consequently defrauded the promoters by refusing payment, knowing perfectly well that it would not pay their creditors to sue them in Court, at a distance of perhaps 20 miles, for sums of only Rs. 20 or 25; hence the bankruptcy of some such Unions. These Unions are useful and legitimate, but when they are not sustained by village authority, by the power which a local community or caste has over its individual members, they are very apt to fail, for human nature can seldom pass the chance of a good thing at another's expense if there is practically no risk (*see* also below *s.v.* ' Classes of Society ').

The first Madras Fund (Nidhi) further developed the system; about 1850 certain Court and other employès discovered that they were being ruined by usurers, and determine to start a Fund to give persons of fixed income, a chance of borrowing at equitable rates. The model selected was the English Building society so called; why this particular class of society was adopted, or who suggested it, is not known, but it is clear from the rules and methods of the Nidhis, which reproduce, in many cases verbally, the rules and conditions

of the English exemplars, that some keen-sighted man discovered the suitability of the Building society to presidency needs; possibly the original idea was actually to provide houses for subscribers. The first Fund was a ' Terminating ' society with a seven years' period; each subscriber agreed to pay for eighty-four months, when the Fund would be wound up and shares repaid at Rs. 102½ per 84 received. From the collections loans were granted to members at 6¼ per cent. interest with penalties for delay; the loans, repayable by the monthly subscriptions, were usually on mortgage, and the order of granting them was determined by lot; the cost of establishment was met from the penalties and from a charge for commission. Branches were subsequently started; these were found expensive and it was determined to make the Fund permanent, that is, a new series of subscribers were admitted and shares opened every year, and finally every month, so that there was a continuous influx and efflux of members and shares.

The Fund continued in much prosperity and favour till 1872, and many others were started in Madras in imitation of the original; some were genuine Mutual societies; some were for the benefit of the promoters and directors; some adopted the practice of selling their loans to the lowest bidder, so as to obtain high profits; some charged 10 or 15 per cent. or other high interest on their loans; as in the English Loan societies a sound principle was often abused for the sake of gain.

But about 1872 it was discovered that the societies were all illegal and had no civil status, not having been registered according to the Companies' Act which, though for many years in force, was unknown to the very companies which should have registered; it is a very peculiar fact that at the very head-quarters of trade, the existence of the Act under which companies were bound to exercise their trade was even unknown to them. The result of the High Court's judgment was the collapse of many societies; debtors knowing that the societies could not go into Court, refused to pay; even after registration the societies could not sue for acts done before registration, and the result of course was liquidation. Some were re-established and duly registered, but the loss to the various societies was calculated at 20 lakhs.

Other abuses also crept into certain societies; the energetic and honourable men who began the Nidhis died or retired, and in some cases were replaced by unscrupulous, incapable nor negligent men; subscriptions were misappropriated: in one Fund many thousands of rupees of profits were devoted to the payment of handsome salaries to directors, promoters and staff; many bogus societies were started in Madras and in the mofussil for the sole purpose of enriching the promoters by sheer fraud; splendid promises were made and for a while fulfilled, till confidence produced large subscriptions when the " Fund " closed its doors; impossible profits such as 2 rupees for every rupee subscribed, were promised; these sham companies even got the nickname of ' Lubbuck ' (literally, gulping or devouring) Funds, and were a disgrace to the community, and a source not merely of immediate loss, but of much subsequent distrust of Credit societies. The specific frauds or faults will be dealt with subsequently, in order to indicate the remedies; suffice it now to say that a large number were started and closed to the ruin of many investors. The following table gives particulars from 1872:—

Period.	Average number annually existence.
1872-77	37
1877-82	68
1882-87	157
1887-92	186

In 1872 there were 20 Nidhis; 93 in 1882; 269 in 1886-87 and 135 in 1891-92. In the five years ending 1892 no less than 260 societies disappeared, 181 of which were in Madras town alone. Doubtless many of these were the irregular and often fraudulent Benefit and Insurance societies described in the papers read in Government Order, No. 3368, Judicial, of the 7th December 1885, where one person is mentioned as " director " of six Funds, though he had been " at least thrice punished for theft, " misappropriation, &c. "; another was a petition writer, and so on; these were started, received subscriptions, and disappeared, the " benefit " being only to the promoters.

For the present study the winding up reports of 70 regular loan Funds taken at random from the registrar's records have been analyzed; 42 fell because of the failure of subscribers, especially those who had borrowed, to pay their dues, probably owing to laxity and mismanagement; nine fell because of the misconduct or fraud of the secretary or other officers; nine simply decayed, getting no business; the rest from various causes, natural expiry being the reason in only three cases. Abuse of powers and embezzlement by the secretary, absolute negligence by directors of the rules of the society and of business methods, disregard by directors of the shareholders, the falsification of accounts and records, dishonest withholding of repayments by borrowers, and negligence in subscription by non-borrowing members, are the chief features of these reports.

The notorious case of a certain " Bank " quite recently started under most excellent auspices in Madras, is well known; the rules provided especially for audit, and yet the funds

disappeared almost from the beginning; the resolutions of the general meetings and the petitions put into Court and the proceedings in Court disclose extraordinary laxity and negligence.

The history is very instructive; it shows that, in the infancy of a movement, the energy, devotion, zeal and honour of the early promoters may suffice to thoroughly establish a paying business on just and honourable principles; that success means ready imitation; that in the imitations and even in the originals there is no intrinsic guarantee that the high principles of the original promoters will be sustained; that if the principle of "*laisser faire*" be allowed free course amidst a needy population, much too ignorant of business to be able to guard their own interests, that principle will be abused; that the mere fact of laws, even if suitable, being in existence, is insufficient, unless there is a specific authority whose special duty it is to work or supervise the working of those laws.

The above has been simply a sketch of the development of the Fund idea; as regards the Nidhis themselves, it is found that they have been promoted either by a philanthropic desire to relieve men from usury and provide a means of saving either for specific purpose such as marriages, house-building, &c., or for general thrift, or by a hope of obtaining profit for the promoters, or by a mixture of both expectations. Individual energy has always been the proximate cause; merchants, officials and vakeels have in most cases, been the active promoters. Sometimes public meetings were called or printed notices issued, but generally it appears that the society developed by simple accretion, not—after the first effort—by an active in-gathering of members.

The history and general principles of these Nidhis having been given, it will be well to describe them further under the following heads, viz., (1) objects, (2) principles and constitution, (3) methods, (4) Government intervention, (5) results, (6) advantages, (7) defects, (8) difficulties.

OBJECTS.—These are described as the facilitation of savings, the relief of members from old debts, the deliverance of them from usury, the accumulation of a fund for special purposes, such as marriages, the grant of loans on good security for all purposes whether for domestic ceremonies or maintenance, for expenditure on jewellery, on house-building and repairs on land, &c. Members alone are generally contemplated, but, in fact, surplus funds are frequently lent in small lots to outsiders at a somewhat increased rate of interest; in such cases the material security must be carefully looked to, since the society lacks that derived from a borrower's membership. An unexpressed object is also the provision of salaries or profits for the promoters, directors or officers; a perfectly legitimate object, but one that is apt to interfere with benefits to borrowers and members, and tends to departure from the strict rules of the society. The receipt of deposits is not usually a primary object; in some societies it is only of subsequent introduction; in hardly any has it obtained any considerable position. It will be seen that the scope of the societies is limited; they are not Banking societies so much as Mutual Loan societies, and they thus fail in one great function of banking, viz., the concentration of idle hoards for productive purposes.

PRINCIPLES AND CONSTITUTION—*Classes of Society.*—There are several classes of Funds the regular permanent Nidhi described below *sv.* 'Methods' and forming the general subject of this chapter; the terminating society, the Chit associations of various sorts, and the Benefit societies. Of the terminating societies there is one which is thoroughly rural; its promoters are village residents, none of whom knows English; its clients are largely agricultural; its original term was for seven years; on the expiry of which it was wound up with a net book profit of Rs. 2,400, of which seven-eighths would, when realized, go to the directors; about half was still outstanding. The society was re started immediately on a much larger scale embracing distant villages, and is therefore likely to be largely defrauded or to lose heavily. The Chit associations calling themselves Nidhis vary in method; in one town the method is as follows: each 100 members form a class of group; these subscribe 1 rupee each per week; from this Rs. 100, Rs. 5 are deducted as commission to the directors, and the balance is put up to Dutch auction: the bids go as low as Rs. 74. The difference between Rs. 74 and Rs. 95 is divided among the 100 membes of the class The borrower executes a bond with sureties for the whole sum and repays it by the usual weekly subscription. No interest is charged, but the premium and commission amount to very heavy interest. In case of failure to repay a suit is filed: one of these Funds, started in 1890 at the head-quarters of a District Munsif's Court, had, in less than three years, filed 150 suits; another started in 1891, had filed nineteen in twenty months (*see* postscript to this chapter). The Benefit societies are those which provide money for various domestic and social occurrences by means of subscribed shares; some are, or were, Insurance societies; these have mostly died out, and the so-called Insurance societies described in Government Order, No. 3308, Judicial, dated 7th December 1885, would never be tolerated under the control of a proper law. These societies do not come within the scope of the present study.

The central structure of an ordinary society is that of a terminating society consisting of a maximum number of shares which are paid up by regular monthly subscriptions and terminate with the period for which the society is founded The society is wound up at the end of the given period, say, forty-five or eighty four months approximately; each member takes one or more shares for which he pays at the

rate of (say) 1 rupee per month; at the end of the period he will have paid up Rs. 45 or 84, and will be credited with this amount, *plus* profit; a share on which Rs. 84 have been paid in eighty-four monthly subscriptions is usually repaid at Rs. 102-8-0; the period may be little less or a little more than the nominal, terminating whenever the shares reach the determined value. It is usual, however, now to make the societies "permanent"; that is, fresh series of shares are periodically and frequently issued, and it is these only and not the society which are wound up as each series matures, so that subscribers are continually coming in and going out; this prevents the accumulation of idle funds at a loss of interest as the termination of the period approaches, in order to pay off non-borrowing members, and also permits the entrance of members without the payment in lump of a serious and often prohibitory mass of back dues, it being only necessary to pay such as are due for the prior months of each particular series. It is, however, usually necessary, as each series approaches maturity, to attract deposits at perhaps 7½ per cent. per annum, in order to pay off matured shares: these deposits are then repaid from future subscriptions, to the detriment, however, of the lending power of the society.

All the societies are called "limited"; this word is frequently not even understood by the societies, which in many cases have explained that the word means limited to a certain number or to a certain value of shares. Since business is almost limited to the grant of well-secured loans to the maximum amount of the share values, there is no real risk to any member in a decently-managed society.

The essence of the society is mutuality; it is a group of men united to help one another by a common contribution of funds which are to be lent out to members only for their sole benefit; all profits derived from the transactions are to return to the members, so that all benefit: the non-borrowing members by the receipt of profits, the borrowing members by the use of the loaned capital and by a portion of the profits which they have contributed to the society. That is the theory, and with the exception of the British Friendly societies, the British and American Building societies, of which the Madras Nidhi is a copy, and the Raiffeisen and Wollemborg Rural Credit Unions, there are no societies in the world more thoroughly co-operative in theory. It is, therefore, greatly to be regretted that, through want of guidance and explanation, through the total absence of any teaching in the idea and methods of co-operation, through the fact that the only societies available for imitation in this country are trading joint stock companies, through the *personnel* of many of the promoters and directors who are Madras business men, through the natural and in this case undiverted desire for gain, and lastly through the fact that the only law governing societies is a commercial or Trading Company law, these essentially Co-operative societies have largely diverged, and are daily diverging more and more, in the path of mere trading societies. The same tendency is observed in the Schulze-Delitzsch societies in Germany, and the inference seems unavoidable that if profits, dividends, and large stipends or honoraria to directors and office-bearers are put forward as attractions to members and administrators, the effort after them will soon become dominant, and substitute the competitive struggle for the co-operative march.

METHODS.—Under this head will be described the general working of a regular Nidhi, its clientèle and administration, its funds, loans, &c.

Clientèle.—In most cases the Nidhis have been started in considerable towns, Trichinopoly, Coimbatore, Salem, Bellary, Tadpatri, &c., by the official professional and trading classes; the main rule of the Nidhis, viz., the regular monthly payment, itself shows this. It is these classes who are most likely from their intelligence, knowledge and requirements to begin associations of this class. Accordingly it is found that the proportion of members of these classes is, up to date, altogether overwhelming; the following table for the thirteen Nidhis which alone have given information as requested, brings this out clearly:—

Nidhi.	Officials.	Professionals.	Merchants.	Shopkeepers.	Artisans.	Agriculturists.			Others.	Grand total.
						Big.	Small.	Total.		
12 Mofussil ..	1,084	287	1,151	766	257	200	349	549	474	4,669
1 Madras ..	1,172	217	628	46	235	81	93	174	545	3,017
Total ..	2,256	504	1,779	812	492	281	442	723	1,019	7,686

In this table the principal and working profession of each member is given; *e.g.*, a vakeel is a professional man even if he owns land; "merchants" include money-lenders and shop-keepers; "others" includes pensioners who are numerous. It will be seen that the four classes of officials, professional men (vakeels, schoolmasters, &c.), merchants and shopkeepers account for 5,351 out of 7,686 or nearly 70 per cent.; even in the twelve mofussil Nidhis they are 3,288 out of 4,669 or slightly over 70 per cent.; agriculturists proper are only 723 or 9.4 per cent. It is clear, then, that the Nidhis of this presidency have so far reached only the official, professional, and trading classes of the towns with a few agriculturists, most of whom also live in the towns. However well adapted their

general principles may be to the conditions of this presidency, or however capable of development, the Nidhis have not, during their forty years existence and twenty years of extension, been able to provide the Madras ryot with any appreciable help.

As a rule there is no condition as to admission except nationality; most admit only caste Hindus, some (Madras town) only Europeans or Eurasians. There is but a single and that a *very small* Muhammadan Nidhi in the whole presidency, Madras city included, and the ordinary Hindu Nidhis do not admit Muhammadans, because of the difficulties arising out of the Muhammadan law of inheritance. Directors generally have power to refuse admission—a very necessary faculty—so as to keep out objectionable characters. There is no general condition, however, as to character, status, &c.; any man who is willing to abide by the rules and pay his monthly quota regularly, is an eligible member. The responsibility of members is " limited " to the maxmum value of their shares; in most Nidhis no single shareholder can hold more than a certain number—usually twenty, twenty-five or fifty—of shares; only in one—a ' Commercial bank '—is there no limit, and the maximum held in that society by any one member is 165; in one society 100, and in two others 300, is the maximum allowable. This rule may be evaded by taking shares in the name of relatives. As however—*see* below—the Nidhis as in Europe, proceed on the democratic principle of " one man, one vote, " irrespective of the shares held, they avoid *pro tanto* any plutocratic preponderance in the governing power.

As a rule Nidhis have but one office; only a very few have branches or agencies; the Hospet Jaya Lakshmi Bhándára has a sub-agency and three branches; the sub-agency is an agricultural Nidhi, practically independent of the orginal, but the branches work under the control of the latter. Here again, they resemble the general run of the German and Italian Credit societies.

Administration.—A Nidhi is usually formed by a few intelligent persons, generally officials and professional men, uniting to the number of seven at least, and framing or borrowing a Memorandum and Articles of association; these subscribe a few shares fully paid up, with which to defray preliminary expenses and registration fees; a prospectus is then issued, and a meeting called by public notice to explain the nature and objects of the Nidhi and a list is opened for members. This or a subsequent meeting appoints the directors and office-bearers, who are, as a rule, of course, the original promoters of the Fund.

General Assembly.—Theoretically, the source of power is the members in general meeting; they elect directors, auditors, &c., and the directors report to them annually; in practice the directors and office-bearers, especially secretary, are the real society, being, practically, the only ones cognizant of business and of the affairs of the Fund. When the general meeting does attempt to exercise power, experience alleges that it is frequently used badly and ignorantly; a mass of ignorant voters are won over to dangerous business, to mistaken appointments of directors or auditors, unconscious of the true duties of such officers, or of the proper scope of genuine and safe business. The power in Madras and neighbouring districts is generally exercised on the " one-man, one-vote " principle; hence, the experienced director of many years' standing has precisely the same theoretical value in the meeting as the newest joined lad or the old market woman with a single share. This is the strictly democratic principle adopted in the Popular banks and Credit Unions of Germany and Italy, which is found to work very well; the power thus given to the mass of members, *i.e.*, to the mass of borrowers, tends—but only tends—to prevent any diversion of the aims or funds of the society towards speculation or towards private interests, or any monopoly of the administration for purposes of private gain by capitalist shareholders. In the United States, however, it is common, perhaps general, to allow one vote per share; it is argued by writers of the greatest experience that though the " one-man, one-vote " principle prevents a few shareholders from combining to control the association, yet, on the other hand, it allows ten men holding one share apiece to have the same voting power as ten men holding ten shares apiece (S. Dexter), and it is evidently considered that a universal and equal vote is, in business matters, a dangerous vote. It is interesting that this should be the case in the great republic, and shows a curious divergence between the views of business and of politics. It is right to add that a limitation in the number of shares to be held and votes to be given by each shareholder is recommended; also that another American writer of great experience in Building societies (E. Wrigley) considers that the stock vote (as many votes as shares) is bad in principle, as " it gives the preference to " capital over brains and experience; it gives the richer members power over the poorer " ones; it tends to destroy confidence, and often leads to fraud and oppression; it is a " great aid to dishonest management and the bane of large corporations of the present day. " In certain important groups of mofussil Nidhis, it is customary to allow one vote for every share up to ten, and thereafter one for every five; this gives a preponderance of power to wealthy shareholders, who moreover are generally those who mostly attend general meetings; these use the Funds as investments and are often directors. Hence there is a tendency to run these Funds as joint stock companies for the benefit of investors and towards the development of dividends, and this is much complained of by many members whose complaints will be found formulated below *s.v.* ' Defects. ' The complaint is precisely that the Fund, under this principle, falls into the hands of a few people who manage everything with a view to their own interests. Experience seems to tend towards the adoption of a modified democratic method; some Nidhis and many experienced members

state distinctly that the " one-man, one-vote " principle is folly in that the ignorant, unbusiness-like and improvident have the same voting power as the intelligent and prudent business man, with a large stake in the society. To which, however, there is the reply that the poor man is very often as prudent as the rich, that his solitary share may be his all, that he is more likely, therefore, to insist on prudent management free from all speculative bias, and above all that he is more likely to insist on cheap credit rather than aim at high profits. The experience of Europe is in favour of the democratic principle in these societies; even poor members thus learn to take a lively interest in a society where their vote is so important, and it is considered that so long as men do not grow wise in proportion as they grow rich, a Mutual association should adhere to this principle, as more consistent with the co-operative formula that a society is an association of men rather than of shares. It is possible, that, as in some Nidhis already, a middle way may be found, *e.g.*, in one Fund one vote is given for every five shares with a maximum of four votes; in another the maximum is sixteen . Possibly a maximum of five votes, *e.g.*, one for every five or fraction of five shares up to twenty-five would prevent all undue preponderance of wealth while giving to the experienced men, with a considerable stake in the Fund, sufficient voting power to prevent ignorance and inexperience from rash resolutions. The single vote system seems successful in Europe, and is based on the true co-operative principle; the unlimited stock vote is generally condemned. In Madras and in the mofussil some of the most experienced men disbelieve altogether in the existing voting system, whether the individual or the stock vote system. They recommend that the general meeting should not consist of all subscribers, especially when the society becomes a large one; a really representative meeting would, in such case, be too unwieldy to manage, while a door is opened to great abuses whenever matters of importance, elections, &c., are concerned. They recommend either a resort to intermediate bodies, each member of which should represent a group of subscribers, or that the general meeting should consist only of shareholders holding above a certain minimum number of shares (*cf.* the French Crédit Foncier, the Presidency banks, &c.), so that the mass of subscribers have no votes, but enjoy all other privileges. Possibly this latter plan may be advisable in cities with very large societies, but for small societies the individual or the modified stock vote system seems preferable as giving all persons a working interest in the society. It has also been suggested by very experienced and disinterested men, one being chairman of a large Fund directed almost gratuitously, that the executive power of a general meeting should be removed altogether; it should be a mere meeting to receive and adopt reports; the real control should be exercised by a board of control of twenty to twenty-five members, chosen at the first general meeting from the men of highest reputation, who should hold office permanently, all vacancies being filled up by the board itself; this board should control all the operations of the managing committee. Such a board of control was, in fact, in existence, it is said, in the old societies of this presidency, but has for many years been abolished under the ideas engendered by the Joint Stock Companies' Act. The proposal is, to a certain extent, parallel with the practice in the old Land banks of Germany, where the general meeting is of rare occurrence, its place being taken by a council of delegates; it exactly recalls also the universal committee of supervision in Europe, which, in every society, controls the work of the managing board, and safe-guards the cause of the society.

It is, of course, open to Funds to frame Articles as they please in any of the above directions.

The directorate usually consists, at least at first, of the most experienced and influential men, retiring, as usual, by rotation, but re-eligible. They are now almost always paid, either by a share in the net profits, after the guaranteed interest has been distributed to members or by honoraria settled at the general meeting; they usually get sitting fees also. In some the directors are paid at a fixed and often a very large proportion of the profits, in others according to the number of meetings they have attended. In the largest mofussil society working rather as a bank, the president and directors work *gratuitously*, while the secretary, auditors, and appraisers each get an honorarium settled at the general meeting; the staff, of course, is always paid by salary. In Germany the directorate of the Schulze-Delitzsch banks is usually paid both by salary and by a share in the profits; in Italy this was also the case, but Signor Luzzatti strongly recommends—and the suggestion is now largely adopted—that their services be given gratuitously; in some of the very largest banks, *e.g.*, Milan, this is pre-eminently the case; in the Raiffeisen and Wollemborg loan societies *all* services are gratuitous except those of the accountant. It seems to be the rule that in these co-operative Mutual Credit societies in Europe, and in the United States, as also in the case of the English Trustee Savings banks and Irish Loan societies under the Act of 1843, the directorate gives its services gratuitously; the Schulze-Delitzch societies are the exception, and the express complaint made against them is that they are tending towards the position of mere Commercial societies, and losing their " mutual " character; the desire for large profits, and consequently larger " *tantiémes* " to the directors, is not merely keeping up the rate of interest, but diverting the societies from their true rôle of assisting and guiding the poorer classes. This complaint may or may not be well founded; the desire for profits does bring about exactly such results in general, and there is a very strong feeling among the promoters of Mutual societies that dividends other than fixed, and wages depending on dividends, are a mistake· fixed

interest and, if necessary, moderate honoraria for expenses out of pocket, are recommended.

Now it is curious that in the earliest societies of Madras (1852) directors did give their services gratuitously; the objects of the Funds were declared to be "mutual benefit," and the most enlightened and public spirited of the members undertook the promotion and direction of these societies for the public good without reward save that of their conscience. It is now made expressly an item of complaint that a struggle for profits and stipends has replaced the old philanthropic, public-spirited sense of devotion; that the emoluments of directors have been, hitherto, steadily on the increase, while the posts themselves have become the objects of scramble and intrigue, votes being even purchased, it is said, from the ignorant mass of members; some assert that the class of directors is deteriorating, as indeed is probable if office is to be chaffered for. If it is argued that men require pay for increased work, it is replied that by far the most arduous work was done in founding and nursing the societies at their start, not in the mere carrying on of a somewhat greater volume of business; that the later history of the Nidhis does not show a better class of work than the older, while, in fact, the paid directors have often shown the grossest negligence and incapacity. One large and flourishing society, in fact, though already directed at very low rates, has proposed to abolish directors' fees with the express intention of stopping this divergence from the "mutual" path; the proposal has, however, not been carried; another large society has reduced its directors' fees by one-third. These facts indicate a growing perception that the initiative idea of the societies has been departed from. It may be useful here to point to Europe where, as in the Popular and Savings banks of Italy, especially Milan, or as in the great Trustee Savings banks and Friendly societies of England, or the Building societies of the United States, an enormous mass of high-class work is done without a thought of pecuniary reward by men of great ability and of engrossing private business who yet give freely of their scanty leisure.

Directors are responsible for all money belonging to the shareholders, but only occasionally is security demanded from them either direct or in the shape of inalienable shares, as is invariably the case in Europe, where every director and permanent auditor (censeur) must hold a number of paid-up shares, which are inalienable, are specially marked in evidence of this, and are deposited in the company's safe. Only the above-mentioned bank has such a rule; in that, each director, though working gratuitously, is bound to hold twenty paid-up shares, value Rs. 1,000, on which he cannot borrow; the secretary (or manager) must similarly hold 100 shares, value Rs. 5,000, which are held by the society as security; the treasurer holds shares and has given other security for Rs. 5,000. Some Nidhis require a certain number of shares as a qualification for the directorate, but there is nothing in the rules to prevent such directors from borrowing on such shares.

There does not appear to be any rule, as is general in Germany and Italy, against directors borrowing from the society; in one Nidhi the directors may not borrow upon the shares held by them as a necessary condition of office. In the Building societies of England and America (with exceptions, *e.g.*, California) and the Nidhis of Madras, the directors have all the rights of ordinary members, whereas in the Co-operative banks of Continental Europe, their position is generally held to entail many duties and responsibilities and to debar them from the privileges of credit, except under special safeguards.

Auditors.—In most Nidhis audit is, of course, a very simple matter, but the larger ones, with thousands of transactions to the value of lakhs of rupees, require most careful auditing. It is usual for the rules to provide permanent as well as special auditors; the former are appointed for a year or term of years, the latter annually; the former are intended to scrutinize the accounts and securities very frequently, viz., daily, twice a week, weekly, monthly, &c., according to the Nidhi; the latter conducts the usual annual examination. Some Nidhis adopt the plan of disallowing any director from being an auditor; in others the permanent auditor is always a director or member of the managing committee. It is a question whether a director should be a permanent auditor; the duty of the latter is to check the operations of the Fund including the work of directors and the observance of the rules; he should have the position of the European "censeur" or committee of supervision; this would tend to prevent the scandals which occasionally arise; it is the want of observance of the rules that has ruined many a Nidhi; if the permanent auditor is a man of energy and influence outside the directorate, he will soon find out and check those abuses which follow a lax directorate or an unscrupulous secretary. The special auditor should always be a professional man, whether a shareholder or outsider, and, if possible, should be re-appointed from year to year, so as to become acquainted with the affairs of the Nidhi. The rules of many Nidhis are singularly defective in the matter of audit and auditors; the practice has been in many, and still may be in some, far worse than the rules; in a case of the present year (1894) valuable jewels on pledge were taken from the safe by an office-bearer (it is curious that he should have got possession of the three separate keys) and pledged elsewhere, but the theft was never discovered either by the permanent or special auditor; ten months after the theft it was discovered by accident, and other defalcations are said to have subsequently been found.

Audit occasionally discloses a considerable number of errors, want of receipts and vouchers, want of stamps to receipts, erroneous descriptions of valuables, confusion among securities, bonds neither cancelled nor returned, though paid up, bills paid without pre-audit

&c. That is when it is well done; in some cases to judge by various and very recent frauds, it is a mere name. There have been in some cases great scandals; jewels and securities returned by a secretary to the borrower during the currency of a loan, and fresh loans obtained on them; valuable jewels dishonestly removed from the safe and their absence not detected by the permanent bi-weekly or by the periodical auditor over a long period; money paid in but never credited; mortgage deeds and bonds made out in the secretary's private name; money largely misappropriated and represented as balance in hand, or as covered by jewels either non-existent or of trifling relative value, or as covered by goods not brought, according to the rules, into the society's godowns; heavy debts long overdue, and often hopelessly irrecoverable, charged as assets to their full value, and included in the valuation for profits; cheques signed in blank and representing no real transaction. These are specimens of actual frauds, every one of which must have been detected by even decent audit, whether ordinary or special. In one case it is true, the auditor found out the fraud, whereupon the directors threatened resignation if the auditor was not dismissed; he was accordingly dismissed, and a relation of a director appointed. There is an important item in the balance sheet regarding which an absolutely correct audit is essential, viz., the item of profits. In one of the oldest and best Nidhis, a recent audit declared the profits to be (say) Rs. 10,000, but a section of the directors and others claimed that it was Rs. 14,000, a difference of 40 per cent. and a second audit was demanded. The two calculations or estimates proceeded on totally different principles, and one was obviously wrong. There is nothing in the reports to show the method of calculation adopted, and it is clear that a very small individual error in calculating the value of thousands of debts would make a very serious difference. The profits entered in the reports are simply the difference between the aggregate assets and the aggregate liabilities, and there is nothing to show whether the assets have not been overvalued—a most common error in England—or the liabilities understated. The assets of a Building society consist chiefly of the "*present value*" of the debts due to the society, and there is nothing to show whether these debts have been correctly calculated. A proper audit should see whether the assets and liabilities are properly valued, and this can hardly be done in large societies except with the aid of tables which do not appear to be in use. There is, moreover, evidence that a common fault of Funds is to include debts as assets even when they may be hopelessly irrecoverable, and not paid upon for years; this false valuation has been the ruin of some Nidhis in which profits were declared upon a so-called valuation of assets in which many thousands of rupees were mere paper debts. A strict Building society auditor would detect this, and refuse to allow such debts to appear in the balance sheet as assets.

There is little to prevent the misappropriation by cashiers, &c., of petty sums, *e.g.*, portions of subscriptions; A pays in Rs. 10, gets a receipt for the sum, but is credited in the ledger with only Rs. 8. When the apparent arrear attracts attention, the deficiency is made up from another account, and so on. The examination of pass-books with the ledger does not seem to form part of the audit. But in one society—possibly in others—it is the practice to call in all the pass-books every three or four months, when a special committee examines them with the ledger; if this is done, embezzlement must be at once detected.

It is obvious that independent external audit is absolutely necessary; such audit is universal in Europe; in England the services either of the public (Treasury) auditors or of charted accountants, is almost universal in public societies, the former being specially available for Friendly, Benefit and Co-operative societies, while in the new Bill (1893) for Building societies, it is expressly provided that one at least of the auditors shall be a professional accountant. In Germany the Land banks have special committees of supervision and audit, and a Government commissioner watches all proceedings and has large powers of inspection; in the Schulze-Delitzch and Raiffeisen societies, audit is provided by internal arrangement; above all the Co-operative Societies' law itself (1889) now provides very stringent rules for due audit *ab extra;* every Union (group) must provide for the audit by experts of the societies which compose it, and, if the society does not belong to a Union, the local Civil or Commercial Court will nominate an auditor on the request of five members. Similar provisions, though not in the law, are found in Italy and Austria; in France the Crédit Foncier is provided (1) with a governor and sub-governors appointed by the State, (2) with three high financial officers of Government on the directorate, (3) with a committee of "censeurs" with large powers of supervision. When such precautions are found necessary in Europe, is there less necessity for independent, external, skilled audit in India? The opinion of the most experienced Madras Nidhi directors is that without skilled, external supervision, there will, in most cases, be relaxed or lax administration and continual fear of fraud; a Government inspectorate with European supervision is expressly mentioned by them as the remedy. Whether Unions and Union inspectorates when available, would not be an equally sufficient remedy, may be considered; at present, however there is neither Union nor inspector. One society remarks that the auditor is annually appointed "among the subscribers who know how to read and write and cipher," hardly a sufficient qualification, but exactly paralleled in the case of the early English Benefit societies; in another case the auditors are respectively a pleader and a schoolmaster. In the light of the frauds, negligences, and ignorance displayed in the failures of many

societies, it is most important that a system of external audit be imposed upon all societies trading in credit upon funds collected from the public.

Trustees.—These are found in some Nidhis; their position is never defined and their duties are vague; apparently—in some societies—they sign all cheques, but are bound to see that they are issued in consonance with orders properly passed by the president. In one society they are said, however, to have issued a number of blank signed cheques to the secretary, to be filled up as occasion required. In another society the only duty mentioned in the rules is that of verifying the securities periodically, a very useful duty, if carried out. In one mofussil town their duty is that of keeping the securities, the several keys of the safe being entrusted to them.

Secretary.—This officer who is usually the best paid in the Nidhi, is really the manager he has large powers and often still larger influence. He is supposed to be the executive officer who simply carries out orders, conducts correspondence, and controls the establishment; he is often in reality the promoter and founder of the society; he is frequently the central figure, and his opinion is of great influence; with a good secretary the directorate is apt to become lax. He has also certain powers of granting small loans, and in one society is mainly responsible in deciding priority in issuing loans, and thus has great power. In nine out of seventy liquidated funds, the liquidation amounting to bankruptcy was directly or indirectly due to the frauds or faults of the secretary.

The treasurer and staff need no notice; in some cases security is taken where they deal with money or have valuables in their possession, or where the amount of loans depends upon their valuation.

Appraisers are important men; if men of position their time has to be paid for by considerable fees, and thus loans become costly: if they are mere low-paid officers it is obvious that the Fund runs risks; in one district it has been stated that many losses have occurred from appraisers accepting presents to overvalue the securities offered when at a distance from head-quarters. Correct valuation is a standing difficulty in the matter of lands, especially when in villages away from head-quarters.

Accounts.—The office accounts seem generally good though various systems are adopted. As they have been started in Madras, they have had the advantage of professional assistance, and the books are usually based on those of the Bank of Madras or of the Exchange banks or on the Government treasury system. Probably these might be adapted and simplified into model forms for the purpose of rural and other Nidhis, if there were a Union of these Nidhis, where experienced directors and secretaries could meet and compare forms. There seems room for improvement in the checks over collection, where the risks are both without and within the office. It is usual now in Madras city to adopt the bill-book system; a series of bills is prepared showing amount and arrears due by each subscriber, and similar entries are made on the pages of a book; the collector takes them round, delivers the receipted bill on being paid, and obtains the initials of the party in the bill-book: this serves at once as a check upon the collector and upon the office; the collector must account for the value of the initialled entries in the bill book; the payer sees each month by the demand made that his payments have reached the office, and the permanent auditor has only to check the bill book with the cash accounts to see that all collections have reached the treasury. One objection is that each member can see in the bill book the state of other members' accounts, and it is suggested that the counterfoil bill system, while simple, would obviate all risks and difficulties.

All accounts ought to be kept by double entry; in one of the best Nidhis, the accounts are on the single entry system, and a succession of auditors have commented upon the unnecessary complexity of the accounts and the great difficulty of tracing errors, one auditor recently remarking that "the auditor after his audit is over cannot, with any certainty, say that the accounts are correct." It will probably be advisable to draw up a model set of accounts for general use.

Reports and Balance Sheets.—These are periodically (one year or nine months) drawn up and a copy of the balance sheet is generally—according to the rules—to be sent to each member. Of course nine-tenths of the members do not understand even if they can read the account thus presented, and this furnishes another argument for external supervision, not necessarily Governmental, but external, such as that of professional audit or of inspection by Union officers. Where the members cannot provide an intelligent check, such check *must* be imposed *ab extra*.

Articles.—These are often incomplete or redundant: one Nidhi copies bodily the rules of another without even understanding the bearing of many of them. There is great need for a model set of Articles suitable for these Nidhis, and for a commentary explaining their use and meaning. Often, too, the Articles are merely for exhibition rather than for use; the history of many failed banks shows this beyond a doubt. In one case the Articles were good enough, and the rules for audit particularly full, with extra checks upon error and upon departure from the rules; the history of that Fund shows that the Articles were a mere dead letter and the audit a total sham. Real supervision is wanted to see that the Articles are properly drawn and properly observed.

Directors are generally permitted to make bye-laws, provided they are not inconsistent with the Articles; but these bye-laws often amount to new Articles and are therefore illegal, *e.g.*, prescribing and excluding interest on deposits; ordering that the payment of matured shares shall be the first charge on a Fund; ruling that a particular class of

persons shall not be admitted to the Fund; ordering that transfers of shares may be disposed of by the secretary; deciding that the Fund shall be entitled to recover a loan at once if not utilized for the purpose specified in the application, &c. These rules may be very good, but they appear to be new additions to the Articles or declarations of policy, and, as such, should be Articles of the Fund.

Funds.—These proceed from the subscriptions of members chiefly, and to a small degree from deposits; the Nidhis do not borrow except by deposits. In one society, which, however, resembles an ordinary bank, there is a capital composed partly of foundation shares, fully paid up, and partly of the ordinary subscription shares.

The funds derived from shares are of course limited to the amount declared by the statutes of the society. These shares have two objects, (1) they are methods of saving and are investments; (2) they are means for (*a*) obtaining and (*b*) paying off a loan.

As investments these shares are very good; the lowest fixed interest generally given is 6¼ per cent., viz., 1 pie per month per rupee paid up. To this, however, may be added additional profits which in certain Funds amount to about 8 annas per share per annum equal to nearly 1¼ per cent. equated upon the average amount at credit during a term; hence a saving subscriber gets about 7½ per cent. per annum on his savings. These shares prove, therefore, good and, if the rules are observed, a perfectly safe investment.

Their chief function in this country is, however, that of obtaining and repaying loans (*see* 'Loans' *infra*); as a rule only members can obtain a loan, and to become a member a man must take one or more shares; every loan must be a multiple of the share value; *e.g.*, if the matured share value be Rs. 100 and the loan be Rs. 500, the borrower must take five shares; the loan is then repaid by the simple process of regularly paying his ordinary monthly subscriptions, *plus* interest. It is in this insensible and gradual method of repayment that one important advantage of the Nidhis resides.

Deposits.—These are generally receivable up to an ordiary maximum of Rs. 5,000 for any one account, the minimum varying from Rs. 25. In some cases they are repayable at call, but this is rare; notice of fifteen days to one month is usually necessary; cheques are not generally in use, but a form of demand with the pass-book as in Savings banks Repayment of deposits must by the rules take precedence of all other demands for funds, so that on a heavy run loans would be impossible for a considerable period. In some Nidhis only fixed term deposits for three, six and twelve months are received. Some Nidhis only accept deposits from shareholders; generally, however, they are taken from any person offering. In some Funds directors are bound to or do lend under the name of deposits whenever the Fund is in need of ready money to pay off matured shares, or to meet demands for good loans. Generally speaking, deposits in the mofussil are made in large sums by a few people; they are not the petty deposits of the masses; in some Nidhis a minimum, *e.g.*, Rs. 25 is prescribed for each in-payment. It is, however, said that these deposits are in many cases made by money-lenders; not necessarily professional lender, but persons who have accumulated or inherited money and utilize it in lending on good security. Some join as directors and deposit funds in order to develop business, so as to obtain profits without individual risks and trouble; others are mere depositors. The connection of money-lenders, at least of this class, with the Funds is noteworthy, especially as so much of rural money-lending in this presidency is by the monied classes rather than by Marwaris. Interest varies according to term and bank; 5 per cent. for ordinary deposits, 6 or 6¼ for twelve months' deposits, are moderate rates and 7½ per cent. is not uncommon; in some societies three months' deposits get 6½ per cent., and twelve months' deposits 9 per cent. In one society charitable deposits get 10½ per cent. The ratio of deposits to capital is usually small; the highest proportion, with one exception, is one-fourth of the nominal capital; in many cases it is not above one-tenth to one-thirtieth or even a much smaller fraction of the capital. No limit to the aggregate amount of deposits is generally imposed by the rules; in one Madras case the deposits are three times the amount of paid-up capital, but this is not an ordinary Nidhi, and is purely European or Eurasian. The small proportion of deposits, considering the very good interest paid and the apparent demand for loans, is remarkable.

No special security is offered for deposits; the status of the society *plus* the reserve, *if any*, and any amount still due upon the shares are the direct guarantees; this latter approaches zero as the shares approach maturity, and where a whole series simultaneously matures, deposits have to be attracted by high interest. Deposits are more readily attracted to societies which lend chiefly on mortgages rather than on personal security; depositors consider such a Fund more solidly established and less risky than those where loans on personal security are the chief feature, while the deposits themselves, being lent on good mortgages, are unlikely to be finally lost. It is probably the absence of material and solid guarantees for the repayment of deposits which prevents their inflow; the interest is far higher than that of Government paper, and the directors of the bank are locally well known; high interest is evidently insufficient *per se* to attract deposits. It is also certain that with substantial and permanent reserve and other guarantees, deposits would be attracted not only in larger quantity but at cheaper rates; with Government paper below 4 per cent., it is difficult to believe that 6 to 7½ per cent. is necessary in Funds, if well managed supervised and guaranteed. A small loss of interest on a good reserve

would be far more than recouped by cheap deposits. Another reason for paucity and dearness of deposits is the necessary delay in repayments.

The smallness and dearness of deposits, the want of definite security for them, the difficulty of repayment in case of a run, and the disorganization of loan operations when deposits are withdrawn, are among the weak points of these societies (*see* below *s.v.* 'Defects').

Reserve.—This is generally provided for in the rules by an allotment of from one thirty-second of the net profits after deducting all dues to subscribers for repayment of principal and for guaranteed profits; such allotment is usually trifling. It is also usual to provide by rule that this reserve shall be broken up and divided in whole or in part every three or four years; on examining a large number of balance sheets, it is only occasionally that a reserve is ever mentioned, and where found, it is usually extremely small. Small as is the reserve at its maximum (usually only 1 or 2 per cent. of the capital). at certain periods it is either *nil* or infinitesimal. Moreover the reserve is often laid out in charitable investments, probably for the deity or temple which gives its name to the Fund; that is not a legitimate use for a reserve. In one large Madras Fund there is a considerable nominal reserve, but this is merely an account entry, and the amount is invested in the ordinary way in ordinary loans; moreover every year the amount credited to reserve from profits in the fourth year previous, is brought into the profits for the current year and divided, so that there are never more than four years' reserves at credit, and these are not separately invested, but lent out as usual. It seems probable too that the so-called reserve is put out on small and short loans, and yet these are the very loans that involve most risk as shown by experience and by the high rate of interest always demanded: such are not the securities in which a reserve should be invested. This is an unsatisfactory feature; a substantial *permanent* reserve is absolutely necessary, not merely for unforeseen contingencies, but as a part guarantee for deposits, and this reserve should be kept inviolate and in perfectly sound securities. The reserve should, so long as deposits are received, be maintained by annual deductions from profits, before even guaranteed profits are declared, at a given proportion, say, 5 per cent. of the actually subscribed capital, as in the U.S.A. and securely invested in Government or good railway paper. After the reserve is brought up each year to this proportion, the matured shares might, on being paid off, take their share of the reserve, the deficit being again recouped from annual profits. Thus, if, at the end of a year, the reserve was Rs. 10,000 and one-fifth of the existing shares had matured, Rs. 2,000 should be credited to such shares, and the deficit at once made up from the profits of successive years before declaring the amount of net profits divisible for the year. This would keep the reserve full, and yet avoid the injustice of establishing a reserve at the sole expense of the first members or borrowers.

Profits.—In Mutual Loan societies, such as the Nidhis, profits ought to be entirely subsidiary to the main purpose, viz., the cheapening of credit; profits are indeed a legitimate means of stimulating thrift, but must not become the chief aim of a society especially when all profits are provided solely by the borrowers, and when directors and office-bearers as such, take almost as large a share (usually seven-sixteenths) as the whole mass of subscribers. After providing the fixed profits according to the rules, all other profits should be kept as low as possible, whereas in the report of certain Nidhis, the annual profit is from 10 to 14 per cent.; part of this, of course, goes back to the borrowers, but the bulk is absorbed by non-borrowers, directors, and office-bearers, and is unduly high. This divergence from the true co-operative idea is the besetting temptation of Co-operative societies all over the world; in America one borrowing member furnishes the profits for three investing members and for himself; in Madras the tendency is for three borrowing members to furnish relatively small profits for themselves and for one investing member, and relatively large profits for directors. There can be no doubt but that the men who start these Funds are not generally aware of their co-operative origin and development; co-operation in its modern sense is hardly known in this presidency, and the compulsory registration of the Funds under the Joint Stock Companies' Act causes them to be looked upon simply as Joint Stock societies where profits or investments are a principal object. In all correspondence and in public discussions, these Funds, as well as proposed Agricultural banks, are treated as joint stock companies or aggregations of shares rather than as associations of members co-operating for mutual relief.

Profits arise in this presidency chiefly from an unusual source, viz., the unpunctuality of the members. In England and America profits are obtained (1) from the difference between the interest on money received and that on money lent out; (2) from premia obtained at the auction of loans; (3) from compound interest obtained as against simple interest allowed; (4) from minor sources such as fines, entrance fees, &c. These produce considerable profits which are periodically *credited* to the shares by some such method as follows: interest at (say) 6 per cent. is first credited to the subscriptions of all previous periods and the remainder is divided among all shares (*see* 'Building societies' *s.v.* 'Profits'). In Madras, however, it is customary to charge interest at (say) $6\frac{1}{4}$ per cent. on the whole amount of a loan and to credit the subscriptions or repayments with interest at the *same rate*. Hence no profits can be made out of this chief source, viz., interest on invested funds, for, though a loan of Rs. 100 at $6\frac{1}{4}$ per cent. earns about Rs. 43 in

seven years, while counter-interest on repayments amounts only to about Rs. 18, the Rs. 100 itself is a sum invested by members as subscribers and also bears interest at the same rate; hence the interest received and that paid on the principal balance one another, while the counter-interest allowed on the repayment of the loan is balanced by the interest received by the society on the same amount re-invested. The following table shows roughly the facts where a Fund works on capital borrowed (deposited) at 5 per cent.:—

Year.	Capital borrowed and lent out.	Annual amount of subscription or repayment.	Counter-interest, credited only.	Interest received at 6¼ per cent.	Total annual subscription and interest.	Interest at 5 per cent. on the capital borrowed.	Net amount available for re-lending.	Interest on amount available at 6¼ per cent.	Interest on pair interest at 6¼ per cent.	Remarks.
		Rs.	Rs. A. P.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	
First ..	Rs. 10,000.	1,200	49 10 0	625	1,825	500	1,325	..	..	The Rs. 10,000 are lent out in 100 loans of Rs. 100 and repayable by monthly subscription of Re 1 each per month, paying interest at 6¼ and bearing counter-interest at the same rate.
Second ..		1,200	109 6 0	625	1,825	500	1,325	83	5	
Third ..		1,200	184 6 0	625	1,825	500	1,325	166	10	
Fourth ..		1,200	259 6 0	625	1,825	500	1,325	249	15	
Fifth ..		1,200	334 6 0	625	1,825	500	1,325	332	20	
Sixth ..		1,200	409 6 0	625	1,825	500	1,325	415	25	
Seventh ..		1,200	484 6 0	625	1,825	500	1,325	498	30	
Total ..		8,400	1,812 14 0	4,375	12,775	3,500	9,275	1,743	105	

Hence at the end of seven years the Fund will owe Rs. 10,212, viz., Rs. 10,000 to depositors, &c., and 212 to the borrowers for balance of counter-interest after adjusting their loan accounts; and for repaying these deposits it will have Rs. 9,275+1,743+105= 11,123. The compound interest about balances the counter-interest, and the profit is derived from the 1¼ per cent. difference between the rate paid for the money lent and that borrowed. At 6 per cent. on the borrowed money the Fund could not pay its way out of ordinary profits; it must seek them from some extraneous source, which it does, viz., from fines. The calculation will be somewhat more favourable than the above, as the re-lending and the interest thereon should be calculated by monthly and not by annual rests. If the amount of Rs. 10,000 is not borrowed, but proceeds from investing members who are allowed 6¼ per cent., there can be no profits.

Some Nidhis receive deposits at a lower rate of interest than that received from loans granted, 5 or 6 per cent. being common; such deposits however are usually small or trifling. Nor is profit generally obtained from auction premia paid for loans as in America; Madras Nidhis usually grant loans either by order of priority or by lot, and not by auction.

Profit in fact is generally obtained from fines, entrance fees and minor payments and from profits on withdrawals; in one great Nidhi the amount of net profit, after deducting guaranteed interest, during three years was below Rs. 15,000, while the sum produced from fines, euphemistically called "additional interest," was above Rs. 10,000; in another Nidhi, the *gross* income in one year was about Rs. 10,000, of which fines amounted to over Rs. 3,000; in another where directors' deposits received 6 per cent., and the interest on loans was only 6¼ per cent., the gross receipts from interest were Rs. 864, of which Rs. 275 were penal interest for delays; in another the books for one month showed Rs. 145 as fines alone. In another the gross payments of interest on permanent loans were Rs. 4,200, of which no less than Rs. 3,452 were penal interest. These fines are generally very heavy: from 2 to 6 pies per rupee per month (12½ to 37½ per cent. per annum) are usual rates. Legitimate as fines are when used to secure punctuality, there lies in them a great temptation to use them as a source of income; unpunctuality is apt to be connived at, if not encouraged, because of the profits derived from it. It is a bad augury for the general success of banks that the chief profits of some existing institutions should arise from the unpunctuality of their members.

Profits on withdrawals are legitimate; if a member suddenly desires to remove his capital, it is presumed that he has a profitable use for it, and as his withdrawal is a considerable inconvenience and source of loss to the society, a withdrawing member is usually allowed only a part of the profits credited to his share. This rule is universal throughout the world.

In this presidency, however, withdrawals are unfavourably treated in many chief Nidhis; only the amount actually subscribed up to date is returned, no interest or profits being allowed, unless, in some, it can be shown that the withdrawal is the result of "force majeure" such as a transfer of appointment, when 2½ or 3 per cent. is allowable. In cases of withdrawal by ceasing to pay up subscription, some Nidhis return the bare amount that has been paid up; others return it with a deduction; these provisions are illiberal.

Conversely, profit is unduly sought where, as in many Nidhis, repayment of regular loans repayable by instalments will only be received in advance if the whole interest due to the end of the originally settled period is paid up: this is unusual: six months' interest is ample, especially when money can readily be again lent out.

The division of the profits is open to objection when viewed in the light of co-operative practice in other countries, and displays a tendency to exploit borrowers for the sake of directors, or at least to favour the earning of profits for the benefit of directors. The directors and office-bearers of a society are usually paid sitting fees and a share of the profits; this share may be only one-fourth, but rises to one-half, four-fifths, and in one case to seven-eighths of the whole net profits. This may be good business, but it is not co-operation. Generally speaking, about nine-sixteenths go to the subscribers generally including, of course, directors, and the remainder to the directors and office-bearers.

The system of paying directors by a share of the profits has the advantage of stimulating business, but the very great disadvantage that when so paid, especially by a very large proportion of the shareholders, the directors are apt to consider the society as a milch cow and to squeeze out profits to the detriment of borrowers, and even to the risk of bad business. The desire of directors for profits also tends to the miscalculation of profits; this is a well-known source of danger, and may be illustrated from one Nidhi where a section of the directors claimed that the profits were higher by several thousands of rupees than those disclosed by the audited balance sheet.

The method of ascertaining profits for declaring a dividend, is often faulty, whether from the desire for present profits or from ignorance. The rules are complete enough, but in their application there are gross errors; *e.g.*, interest due but not yet paid, even upon long over-due loans, is credited as a receipt, included on the credit side of the profit and loss statement, and forms part of the "net profit" divided among the members. Similarly in estimating assets, over-due loans are entered in many Nidhis at their full value; the increasing volume of these in some seems to point to the inclusion of possibly irrecoverable debts; these, of course, should have been written down to their real value; it is not uncommon to see several thousand rupees under this head as an asset, of which the value is wholly doubtful.

Profits should be kept low and should return as far as possible to the members; it is legitimate, though not necessary, that directors should receive honoraria for their trouble and experience; but these honourable posts, largely gratuitous elsewhere, should not degenerate into mere sources of income, to be scrambled and intrigued for and to be remunerated in increasing volume at the expense of the borrowing members. Experience moreover, even in the presidency, shows that those societies are not necessarily the most successful where the rules provide most liberally for the profit of the directors; there has been frequent disaster entirely from the nature of the business accepted with a view to raise profits, and from the nature of the men who have sought office in order to obtain profits. One or two Funds, *e.g.*, the Hindu Pension Fund (Madras) have worked well —the above Fund since 1854—without the directors receiving a single rupee in the way of profits, honoraria, or even sitting fees.

Loans.—The money raised by subscriptions or by deposits is lent out chiefly to members; in Madras city personal security is, in some cases, accepted but generally only good mortgages and pledges of jewellery or Government paper. In the mofussil, on the contrary, personal security is more common than mortgages, which in some of the largest Nidhis are either expressly excluded, or obtain but a small percentage of the loans, and then only with the addition of a personal surety. The reasons assigned for this difference will be seen immediately, and afford much ground for thought; briefly and chiefly they are that in Madras personal security is shunned because of personal distrust due to a prevalence of fraudulent practices, and to the facilities for bankruptcy, while mortgages are favoured because of a good system of title and of ease in recovery of debts; in the mofussil, mortgages are avoided because of difficulties of title and the effect of the Revenue law for the recovery of arrears, while personal security is accepted because mutual confidence exists between members residing in the same village or town, and intimately known as neighbours. It is, however, curious that even in mofussil Nidhis, mortgages take rank prior to personal security in the sequence of preference, and are granted at lower interest; this is due either to the fact that the rules are borrowed direct from Madras, or to an opinion that mortgages *per se* are safer than personal security; if it is the latter it follows that mortgages are not largely accepted because of the difficulties of title and encumbrances.

The commercial bill is not in use as a method of credit; the cash credit is also absent

These loans are granted in the usual way, needing no description; there is a committee to receive applications, valuers and appraisers and a decision. Loans are granted to about half or three-quarters of the estimated value of the property if mortgages; to a somewhat higher value if pledges.

Securities are various, viz., paid up or partly paid up shares, jewels, Government paper, land and house property, and personal security, preference being given in Madras city in the order named. In Madras city mere personal security is strongly objected to and in fact generally refused; it was deliberately stated in two large societies, that in that city it is not safe, owing to the facilities for bankruptcy; no respectable person, it was said,

will stand security except for very short periods (three months) since the habit of evading debt has grown up. In the margin of the rules of a large bank which has collapsed, there is a pencil note by a director that the ruin of the bank was due to loans on personal security. This is a very unsatisfactory condition, but in rural parts this want of confidence, these breaches of faith, do not exist to a material degree.

The method of repayment is that of the Building societies; suppose a man has one share payable in eighty-four months at Re. 1 per month; a loan is granted to him for Rs. 100 upon mortgage of a house worth perhaus Rs. 150, this loan he repays simply by his ordinary monthly instalments of Re. 1 *plus* interest; at the end of the eighty-four months from the date of his entering the society, his share will, as usual, be worth Rs. 102-8-0, and his debt is therefore wiped off. If his loan is for Rs. 500, he must take five shares. Hence he is able to pay off his debt by small monthly fractions—a very useful plan to those who get monthly pay.

The method of ascertaining title is an interesting point. In Madras town it is easy for within the limits of the High Court original jurisdiction, the Collector's certificate is used as a title-deed; no one will accept a mortgage without the production of that certificate; consequently, if it is handed over to a creditor for a loan, not only is the creditor sure that there is no previous charge, but he retains full control over any attempt at subsequent dealings. This certificate system, however, is giving way to the ordinary method of registration, and it is said that there is greater difficulty now in dealing with real estate. Moreover one chief Madras Nidhi expressly states—and it is probably the case in the others also, especially those which pride themselves on accepting only secure business—that very many applications are rejected even in Madras from defective title or from inability to prove a clear title. The application forms for loans usually contain very searching and complete questions as to title, encumbrances, family claims, &c., and the rules provide for full additional enquiry by directors commissioned *ad hoc*.

Now it is notorious (1) that there is no registration of title in the mofussil; (2) that even the ascertainment of prior encumbrances is most expensive and somewhat uncertain; (3) that owing to Hindu family law it is most difficult to obtain thoroughly secure title. How is it then that the up-country Nidhis can lend at all on land and houses? There is one simple answer; the borrower is a member of a purely local society having a very limited sphere of action; hence the officers of the society know each member personally and can ascertain his circumstances and the status of his property very easily. The borrower, on the other hand, being a member of this small society, dare not mis-state his affairs for fear, not so much of legal as of social penalties. To borrow money from a society composed of his immediate friends or neighbours on bad security, would be to rob them deliberately, and would expose him to the utmost social danger, a risk that a few men will run, especially Hindus living under the village system. Even if the security be bad, the borrower will, *quâ* member, continue paying up his shares—which is all that is needed—for fear of social ostracism. Finally it must be remembered that, all over the world, a villager is unwilling to betray or defraud his co-industrial, his immediate neighbour or casteman, or the co-member of a Benefit society; it is found throughout England and Europe that they will undertake any sacrifices rather than leave an immediate neighbour or co-member in the lurch, so much so that emigrants will remit their old arrears from a distant country rather than undergo the reproach. This feeling is equally strong in the ordinary village systems of India, where brotherhood is still alive and ancestral debts are cheerfully taken up for payment, and this feeling, so apt to die out under the influence of individualism, is revived and strengthened by association in a society. Moreover the societies usually make very careful enquiries from the applicant; the application forms in the best societies require very full statements as to title, as to the number and relation of the co-heirs and their exact interest in the property, and a statement as to encumbrances, if any; he is also made to sign a declaration that his statement is true, while the bond contains a statement by the borrower that he is responsible if any prior claim turns up. In one society which has been started by and chiefly deals with rural members, the examining officer has a printed list of fifty-four questions, dealing in great detail with the family, relations, status, &c., of the borrower and with the status, title, encumbrances, &c., of the property the use to which the loan is to be put the manner in which any prior debt to be redeemed by the new loan, was spent, &c. It is further to be remembered that even a security of insufficient value may rapidly become sufficient, not merely by an improvement, if any, effected by the loan, but by the gradual monthly repayment of the debt; the security remains the same but the debt is gradually reduced. Moreover in mofussil towns, where the village system is comparatively non-existent, it is not uncommon—in one large town it is said to be universal—to add personal sureties to the mortgage deed, so that the Fund is protected in every possible way. Doubtless in the mofussil, as in Madras, very many applications are rejected from want of a clear title, and, as a matter of fact mofussil mortgages are comparatively few in number, partly because nearly all the best Funds are in towns, generally of considerable size, such as Bellary, Trichinopoly, &c., where, therefore the Funds have mofussil difficulties as to title without either the Madras city conveniences or village social guarantees, partly because of other difficulties arising out of the Revenue law which, for arrears of revenue, sells lands free of encumbrances.

In the Mufassal, then, the security of a society is (1) title ascertained by direct knowledge and enquiry in a circumscribed locality; (2) a clause in the bond holding the borrower specially bound; (3) the addition of a personal surety; (4) the fear of social ostracism; (5) an actual unwillingness to go back from engagements; (6) the additional bond of membership.

If there were no other reason for the localization of societies this would suffice; no Central society can venture to give loans without cut and dry information as to title; this, in the absence of all registration of titles, would be prohibitively expensive for all small or medium loans, and most of the applications would have to be rejectd; on the other hand, borrowers would have little objection to sharp practice as against a distant and impersonal society.

One great defect in security is the absence of fire insurance. In mufassal towns there is considerable risk of fire, especially where there is no municipality to insist on nothing but tiled or terraced roofs. Most mortgages in the Nidhis of such towns are on buildigs and yet these are uninsured. This is one reason why sureties are added; the sureties are practically insurers against fire. In the Ceded Districts the risk is less, for every house has a flat mud roof; in the Tamil districts the risk must be considerable.

Loans are granted generally to members only, but in most Nidhis it is now allowable to lend to outsiders if funds are available, and at increased rates of interest.

Class of Loans.—There are numerous classes of loans, viz., (1) regular or permanent, *i.e.*, loans to subscribers on mortgage, on pledge, on promissory note when Government paper is deposited, or up to 95 per cent of paid-up subscriptions, on bond with sureties; these are always repaid by the fund system of monthly instalments; (2) temporary or extra, either to members or to outsiders; for short terms usually of three to six months repayable in lump; (3) small lot loans of Rs. 5, 10 or 20 repayable in from one to three months. The following table gives details for the few societies that have supplied figures as requested:—

Society.	Class of loan.	Below Rs.								Above Rs. 1,000.	Total.
		10.	25.	50.	100.	250.	500.	750.	1,000.		
Ten mufassal societies.	Mortgage	5	9	46	420	107	88	11	20	6	707
	Pledge	29	251	426	486	284	108	13	17	16	1,640
	Simple bond or promissory notes.	43	308	539	378	486	172	51	83	11	2,071
A Madras Town society.	Mortgage	2	2	3	46	124	259	80	94	96	686
	Pledge		3	28	71	70	60	14	4	7	257
	Bonds or promissory notes.	30	109	269	310	311	126	44	15	18	1,232

N.B.—Simple bonds and promissory notes include regular loans on the paid-up value of shares, and not merely loans on mere personal security: this is especially the case as regards the Madras Town society.

It would seem that mortgages in the mufassal Nidhis are few and between Rs. 50 and Rs. 500; about half of this are by single Nidhi in a locality where there is much sugar cultivation and rich land. The simple bonds and promissory notes are the loans not merely on personal security but upon the paid-up value of shares; hence the table is not inconsistent with previous remarks. The heavy Madras figures with the numerous large mortgages show both the greater wealth of the locality, and the facility with which mortgages are effected in the Presidency town, owing (1) to the easy ascertaining of title; (2) the ease of recovering debts under section 69 (*c*) of the Transfer of Property Act, which is applicable to Presidency towns alone.

Method of allotting Loans.—Since nearly every member—at least three out of four—of an ordinary Nidhi wishes to borrow, there is much competition for loans. Most of the Nidhis seem to grant loans according to priority of application; a list is made, and members get loans in turn; some Nidhis give directors power in case of pressing need, to allot out of turn. It is hardly necessary to remark upon the possible results; the winding-up reports show that officers' and directors' friends are apt to obtain priority, and it is conceivable that if much power is left to a secretary or ill-paid manager, those who obtain his favour in any way, obtain undue priority. Moreover, with the limited funds at disposal, those who are in the greatest need, must frequently fail to get a loan in time to be of use.

Some few Nidhis consequently adopt the auction premium plan, usually that in which the bidder offers a premium of so many rupees for the loan, the highest bidder wins and the premium is deducted from the amount of the loan, with the full amount of which he is, of course, debited.

Some adopt the so-called 'ballot' system; this simply decides the question by lot. At first sight it would seem the best method as avoiding favouritism and the cost of premiums, but it has been largely abandoned in America in favour of the auction system, and the new English Bill of 1893 expressly forbids it in all new societies, because, apparently, persons join societies merely to gamble for the lots, which, if they win, they sell at a high price to those in need, thus realizing a heavy profit which should have gone to the society; in fact a society seems to be often formed by a ring of speculators who gamble for the subscriptions and share the profits.

Interest.—The interest in many Nidhis is high; in some it is, *primâ facie*, unnecessarily high; but it must be remembered, in comparing rates with those of money-lenders, (1) that all dealings are, in theory at least, regular and clear and open to complete inspection and audit; (2) that in loans payable by instalments, counter-interest at the same rate is allowed on all instalments, while sowcars, specially under the 'kanthu' system, allow no interest on instalments; (3) that all borrowers of regular loans are necessarily subscribers who share in the profits of the Nidhi, and thereby obtain a further set off against the cost of their loans. For example, a loan of Rs. 100 is granted at $6\frac{1}{4}$ per cent repayable in eighty-four months (seven years) by monthly instalments of Re. 1 each; in these seven years the borrower will have paid as interest $(6\frac{1}{4} \times 7) =$ Rs. 43-12-0. But since he has repaid his loan by the usual subscription of 1 rupee per month, on which interest at 1 pie per rupee per month ($6\frac{1}{4}$ per cent per annum) is allowed, he will be credited with $\frac{84 \times 85}{2}$ pies, equal to Rs. 18-9-6: hence for the accommodation of a lump sum of Rs. 100 repayable by monthly instalments over seven years, he has paid about Rs. 25, if interest upon interest is neglected. From this again is deducted his share of the 'additional profits" due to him as a member.

The following table from Nidhis in Madras and the mufassil gives a view of the rate of interest:—

Society.	Regular loans.			Temporary loans.			Small lot loans.	One rate for all kinds of loans.	Loans to strangers.	Penal interest on default.				Deposits.								Remarks.
	Simple loans, pledge of jewels or Government paper.	Mortgage.	Personal security.	Pledge.	Mortgage.	Personal security.				Non-benefited subscribers.	Benefited subscribers. Simple loans.	Benefited subscribers. Other loans.	Non-subscribers.	At call.	Three months.	Six months.	Nine months.	One year.	Two years.	Three years.	Full term.	
	P. CT.	P. CT.	P. CT.	P. CT.	P. CT	P. CT.	P. CT.	P. CT.	P. CT.	P. CT.	P. CT.	P. CT.	P. CT.	P. CT.	P. CT.	P. CT.	P. CT.	P. CT.	P. CT.	P. CT.	P. CT.	
A ..	$6\frac{1}{4}$	$7\frac{13}{16}$	$9\frac{3}{8}$	(1) $9\frac{3}{8}$ (2) $7\frac{13}{16}$ above Rs. 500.	$10\frac{15}{16}$	$12\frac{1}{2}$	15	..	(*b*)	25	$37\frac{1}{2}$	$37\frac{1}{2}$	(*d*)	5	..	..	..	6	..	..	..	(*a*) In H and I the loans are put up to auction, and the premium bid for the loan is an *additional* charge in the nature of interest taken in advance and is often very heavy.
B ..	$6\frac{1}{4}$	$7\frac{13}{16}$	$9\frac{3}{8}$	$7\frac{13}{16}$	$9\frac{3}{8}$	$9\frac{3}{8}$	15	..	(*b*)	$12\frac{1}{2}$	25	25	(*d*)	5	5	5	5	5	5	5	5	(*b*) Only temporary and small lot loans are open to strangers who are charged for these at the same rate as members,
C ..	$6\frac{1}{4}$	$7\frac{13}{16}$	$9\frac{3}{8}$	(1) $9\frac{3}{8}$ (2) $7\frac{13}{16}$ above Rs. 500.	$10\frac{15}{16}$	$12\frac{1}{2}$	15	..	(*b*)	25	$37\frac{1}{2}$	$37\frac{1}{2}$	(*d*)	5	..	..	..	..	..	..	..	(*c*) Strangers are charged "according to circumstances."
D ..	$6\frac{1}{4}$	$7\frac{13}{16}$	$12\frac{1}{2}$	$12\frac{1}{2}$	$12\frac{1}{2}$	$15\frac{5}{8}$	15 $18\frac{3}{4}$ on default	..	(*b*)	25	$37\frac{1}{2}$	$37\frac{1}{2}$	(*d*)	5	..	..	..	6	7	8	..	(*d*) Interest must be prepaid by non-subscribers.
E ..	$6\frac{1}{4}$	$7\frac{13}{16}$	$12\frac{1}{2}$	(1) $9\frac{3}{8}$ (2) $7\frac{13}{16}$ above Rs. 500.	$10\frac{15}{16}$	$12\frac{1}{2}$	15	..	(*b*)	25	$37\frac{1}{2}$	$37\frac{1}{2}$	..	..	6	..	..	9 per cent. above Rs.500	..	..	..	
F ..	..	..	..	..	..	..	..	$6\frac{1}{4}$	..	$12\frac{1}{2}$	$12\frac{1}{2}$	$18\frac{3}{4}$	..	6	6	6	6	6	6	6	6	
G ..	..	..	..	..	..	..	..	$6\frac{1}{4}$	..	$12\frac{1}{2}$	$18\frac{3}{4}$	25	..	6	..	..	..	..	..	..	..	
H .	(*a*) jewels $10\frac{1}{2}$	9	..	9	9	9	..	..	(*c*)	$18\frac{3}{4}$	$18\frac{3}{4}$	$18\frac{3}{4}$	..	6	..	..	..	9	..	..	..	
I ..	(*a*)	..	..	..	..	..	..	..	$10\frac{1}{2}$	$12\frac{1}{2}$	$12\frac{1}{2}$	$12\frac{1}{2}$	..	..	..	..	..	..	..	..	..	
K ..	9	9	9	$10\frac{1}{2}$	$10\frac{1}{2}$	$10\frac{1}{2}$	..	..	..	$18\frac{3}{4}$	$18\frac{3}{4}$	$18\frac{3}{4}$	..	6	..	..	..	up to 9	..	..	..	

The rates vary considerably. A to F and L, M are mufassil Nidhis; G, H, I, K are in Madras. The great difference in interest found in G, H, I, K is noticeable and no good reason has been given. Penal rates are very heavy and are intended to enforce punctuality, but may easily be abused because of the great profit derivable from them. The rates given on deposits are also entered, so as to show the margin of profit. The 'auction premium' system found in certain Madras Nidhis (*see* H and I) has already been noticed this amounts to an indefinite increase of interest which may thus depend wholly upon a man's necessity.

Loan Values.—The maximum value of loans to a single person is practically fixed by the number of shares he may hold; since each share is for Rs. 50 or Rs. 100, and fifty shares is the general maximum to be held by one man, Rs. 2,500 or Rs. 5,000 is the maximum loan. The minimum varies from Rs. 5 upwards. The small loans are usually the special 'small lot' loans bearing high interest and for short terms; regular loans are not of less value than one share. These societies are quite capable already of giving considerable loans, while yet adapting themselves to very petty needs; *e.g.*, in one Ceded Districts Nidhi the maximum loan actually granted during the past three years is Rs. 3,200, and the minimum Rs. 10; in another Rs. 1,180 maximum and Rs. 5 minimum; in three other Ceded Districts Nidhis the maximum varied from Rs. 1,500 to Rs. 2,000 and the minimum fell to Rs. 8. In the Nidhis of Tamil districts (mufassal) the maximum loans actually granted were from Rs. 1,000 to Rs. 2,800, while the minimum was Rs. 5. While, however, funds are limited to subscriptions with occasional or moderate deposits, it is obvious that the mass of subscribers must fail in getting loans just in proportion as large loans are granted; one loan of Rs. 3,000 absorbs for the time the funds for ten loans, of Rs. 300 each. The following table shows maxima, minima, numbers and annual averages for the last three years in certain mufassal Nidhis:—

Nidhi.	Maximum.		Minimum.		Loans above Rs. 100.		Loans below Rs. 100.		All loans.	
	Possible.	Actual.	Possible.	Actual.	Number	Average value.	Number.	Average value.	Number.	Average value.
	Rs.	Rs.	Rs.	Rs.		Rs.		Rs.		Rs.
A	5,000	3,200	..	10	513	100	173	50	486	..
B	2,500	1,500	..	50	76	..	19	..	95	..
C	5,000	1,180	5	5	102	..	428	..	530	89
D	2,500	1,500	..	25	404	..	224	..	628	..
E	2,500	2,000	..	50	84	..	12	..	96	220
F	2,500	1,500	10	8	89	..	26	..	115	111
G	..	2,600	5	6	91	208	22	..	113	194
H	2,500	1,000	5	9	..	..	..	..	..	..
I	2,500	2,400	..	20	261	..	129	..	390	131
K	5,000	2,500	5	5	77	326	40	60	117	236
L	..	2,800	..	20	628	404	1,014	50	1,642	185

The average of all loans appears to be about Rs. 166. From another table given below the average appears as Rs. 168 for all loans, Rs. 255 for those above Rs. 100 and Rs. 43 for those below Rs. 100:—

Number of Bank or Nidhi.	Average number of loans.	Below Rs. 100.	Above Rs. 100.	Average amount of each loan.	Below Rs. 100.	Above Rs. 100.
1	486	173	313	100	50	..
2	95	19	76	..	..	..
3	530	428	102	89	..	..
4	628	224	404	..	..	..
5	50	10	40	350	*Nil.*	350
6	21	5	16	161	43	194
7	96	12	84	220	..	..
8	115	26	89	111	..	..
9	29	5	24	202	37	239
10	30	18	12	187	65	269
11	113	22	91	194	..	208
12	390	129	261	131	..	..
13	117	40	77	236	60	326
14	1,642	1,014	628	185	5	404
15	20	*Nil.*	20	100	*Nil.*	210
16	7	5	2	94	42	700
	4,369	2,180	2,239	168	43	255

These, though not selected for this purpose, are among the best and largest in the presidency, so that the statistics are not true averages; they are not complete, and are sometimes incorrect, but are entered as stated, palpable errors excepted. Remarks are needed as follows: in F sixty loans of above Rs. 100 each and eight of below Rs. 100 were given on personal security. H has only been recently started; I is rather a Joint Stock Commercial bank than a Mutual society, and its annual loans average above 3 lakhs.

i.e., as much as, till lately, the annual normal Government budget under the Land Improvement and Agriculturists' Acts. But the bank is purely local and indigenous foundation, and is said to be working extremely well in a mofussil town; it cannot, however, be taken as a type of a true Nidhi.

Duration.—This is regulated by the nature of the loan, not by the use to which it is to be put. All "regular" loans, *i.e.*, those to subscribers to be repaid by monthly instalments as shares, are granted for the time during which those shares have yet to run; *e.g.*, in one Fund with a term of eighty-four months, the maximum terms is necessarily eighty-four months; in another forty-five months; a loan asked for after one year has expired will run only for seventy-two or thirty-three months respectively. This is a rigid rule and most strictly observed; the loan must be paid off by the regular monthly share subscription, or the borrower will be considered a defaulter and treated accordingly. While eminently suited to the classes who chiefly use these societies, such as officials, pensioners, tradesmen, it is obviously ill-adapted to anything like land improvements by ryots for whom the terms are too short, and the monthly payment rule too rigid. There is, however, a method of partly avoiding the former difficulty; during the term of the loan, should the borrower find himself in want of money, he can apply for a new loan, if this is granted, the old loan will be wound up and a new one granted for a new term of forty-five or eighty-four months; *e.g.*, if a man has borrowed Rs. 300 for eighty-four months, and has paid up in three years Rs. 108, and then applies for a new loan of Rs. 300, the sum of his payments, viz., Rs. 108, *plus* counter-interest, say Rs. 4, will be cauclated, and the balance against him struck for Rs. 192. The new loan for Rs. 300 will now be issued, Rs. 192 will be deducted for the balance of the old loan, and Rs. 108 handed over. In this way a man can obtain a considerable sum on the same property by a succession of loans which may enable him to develop an improvement, but he cannot, by this method, obtain any prolongation of the original loan, nor does the method solve the difficulty that the annual payments required are too large for a land improvement or for the building of a house, or the difficulty of monthly payments by a ryot. Suppose a loan of Rs. 300 be taken for one of these improvements, each year the borrower must repay with interest (Rs. 18-12-0 or more) Rs. 36 or 72 according as the term of the Nidhis is eighty-four or forty-five months; this is an impossible rate when the repayment of the loan is sought —as in land improvements—from the net profits of the improvement. For such loans much longer terms and smaller annual instalments are absolutely necessary.

The difficulty as to monthly repayments is variously avoided: in some Nidhis the bad plan is adopted of allowing arrears to accumulate: this is a direct breach of rule and therefore bad in itself; it also teaches unpunctuality, and entails penal interest. Another plan is adopted by one Fund which lends Rs. 100 on condition of repayment of Rs. 125 in forty-five months in five instalments of Rs 25 at nine months' intervals; this has the disadvantage of high interest (about 12½ per cent.), while, since the period is nine months, the nistalments must, on several occasions, fall due at wrong seasons, a fact which entails arrears and penal interest: this is a detail which could be modified. The same Fund will procure implements for its clients if the instalment is raised to Rs. 27, a large increase in the interest, intended to cover the Fund's commission as agent.

Small lot and temporary loans are usually for one to three months, open, however, to one or even two renewals, sometimes at increased interest.

Purpose of Loans.—This is stated generally as for payment of prior debts, purchase, building or repair of houses, purchase of lands, trade, marriages, and payment of assessment; usually the order stated is that given above, and the last-named is only mentioned by one Nidhi. In a *very few* cases is the improvement of lands (digging of wells) mentioned, but the purchase of lands and of cattle are occasionally stated; the redemption of prior debt is common, and in some cases the repayment of a Government loan is mentioner, probably when a loan has been called in for breach of conditions. It is to be remembered that nearly all these Nidhis are in towns, mostly large ones; hence agriculture is seldom represented, and the Government assessments are those due by considerable and absentee proprietors. Nearly all Nidhis expressly state that they do not interest themselves in the purpose for which the loan is required; they look only to the security; this seems to be universal. Even when the form of application contains a query as to the purpose for which the loan is required, it is merely put to guard against any objection by third parties that the loan was granted otherwise than for useful family purposes, or it is, rarely, a relic of a past attempt at control; two Madras societies stated that this control was once customary, and that formerly loans were only granted by instalments, after ascertaining that the money had been used for the specified purpose, probably house-building. This practice seems to have generally died out, and was only intended to safeguard the security given to the Nidhi, as for instance, when money was granted for repairing a house which was the security for the loan. In this matter the Nidhis have adopted the ordinary commercial practice and fall short of the true co-operative principle of the guided, guarded and controlled use of credit; it is the influence of the society on its members towards prudence and productive borrowing which is one chief function of the German an Italian Credit Unions (*see* "Raiffeisen" and "Wollemborg societies,") a function entirely missed by societies which care only for the security of their money and the due return of profits.

Recovery of Loans.—The repayment of regular loans, which are those chiefly contemplated by the Nidhis, viz., those repayable as shares by monthly instalments, is

provided for by the instalment system, a very advisable plan for certain classes of people. Delay entails penal interest, and failure for three or more months usually entails liability to exclusion from the society and to the procedure necessary to recover the loan amount when this exceeds the paid-up value of the shares held. There seems to be a great deal of unpunctuality, since the penalties for arrears form usually a considerable source of profit, but in well-managed societies there has been no great final failure to pay, and little or no final loss, owing to the very complete security always taken whether as mortgage, pledge, personal security, deposit of Government paper, promissory notes upon paid-up shares, etc. It is found, too, that a little patience frequently results in full payment; this is expressly mentioned in the annual report of one flourishing Nidhi. In one thoroughly rural terminating Nidhi, though the penal interest due to unpunctuality accounts for nearly a third of the income, there has been only one suit in seven years; there has, however, been some difficulty in collecting, at the winding up, the full balance of dues. Herein lies one of the chief benefits of purely local societies; they can perfectly judge of the *bona fides* and *status* of a borrower, and can decide whether time may not be given under the circumstances. The Madras Town Nidhis report in fact little or no difficulty, except when continued default or failure of security forces them to Court.

Should it be necessary to proceed to recover the arrears by coercive measures, the Presidency town and the mofussil Nidhis are found at once to be on a very different footing. In the Madras town the Nidhis have the right, under section 69, clause (*c*) of the Transfer of Property Act, to sell the mortgaged property, without the intervention of a Court, after three months' notice to the mortgagor. As the mortgages are very carefully investigated, as titles are clear, owing to the certificate system, and as arrears probably accrue only after a portion has been paid off by the monthly subscriptions, this power enables Nidhis to recover their dues readily, cheaply, and without any balance; one large society has had only one suit for a balance in twenty-two years. Moreover, though Madras Nidhis complain of the cost and delay of the Presidency Town Courts, they, at least, have Courts at their doors.

Another method is adopted by the Madras Town Nidhis to prevent difficulty in recourse to the Courts; the mortgage is made out as a mortgage with possession and the mortgagor then executes a rental agreement, thus holding his property as tenant of the Nidhi; in case of default he can be sued in the local Small Cause Court for failure to pay rent, and promptly ejected. It is not, however, usually found necessary to exercise this power. This corresponds with the provision frequently made in English mortgage deeds and called an attornment clause; An English society in such case takes the position of a landlord, and can, therefore, distrain summarily for the amount due. The provision used to be common in English Building Societies, and has been legally decided to be valid. It would provide a summary remedy for mofussil Nidhis if the mortgagee took the position of a landlord under the Rent Act, but this does not seem to be the case; nor have Mofussil Small Cause Courts the power to entertain suits for ejectment in consequence of default. It will be seen, then that mofussil Nidhis are heavily weighted as compared with Madras societies.

Generally speaking, in the mofussil, Nidhis have only the ordinary procedure in the case of debts, *i.e.*, they must file a suit in some Court, as it has been ruled that a mortgage has no power of himself to sell, even though such power be expressly entered in the mortgage deed; this Court may be 30 miles away as is frequently the case in the Ceded districts. The mofussil Nidhis, one and all, complain of difficulty whenever they must resort to the law, viz., in distance, cost, and delay . One rudimentary and purely indigenous Nidhi, which lent in sums of Rs. 25, broke up because its members learnt that the cost and delay of going to a Court distant about 20 miles was so prohibitive that the directors preferred to abandon debts. It appears that if it is really necessary for Nidhis, especially when at a distance of more than 5 miles from a District Munsif's Court, to resort to the aid of the tribunals, some simplified procedure must be found; remedies must be speedy and cheap. The experience of the Raiffeisen societies seems to show that the aid of the law is necessary; the influence of societies over their members usually suffices to secure the payment of debts, but then it is just to the fact that the aid of the law is at hand and can be readily invoked, that the societies owe part, at least, of their influence. In villages especially, rustic habits tend to delay, while the rustic mind is quite shrewd enough to see that when there is no cheap remedy, there may be an evasion of liability; hence it is necessary if rural Nidhis are to succeed, that there should be cheap and ready if not absolute proximate tribunals to enforce just claims. There are several possible methods which will be discussed hereafter (*see* Chapter on " Law "), and it is only necessary here to point out that the Village Courts of this presidency under Act I of 1889 with ordinary jurisdiction up to Rs. 20, are perfectly capable of dealing with all cases of arrears likely to arise; under the instalment system they have nothing to do with the mortgage or other security; all that the Nidhi would have to do would be to file a suit for the recovery of the monthly instalment whenever it is in arrears; the Court could settle the matter in a week and issue process for the decreed amount on the spot.

Government Intervention.—All societies have to be registered in the office of the Registrar for Joint Stock Companies; they obtain incorporation by this registration and fall under the operation of the Act. The duties of the registrar are simply those of registration, the examination of the articles, the issue of a certificate of incorporation, the registration of any changes, the levying of certain fees, the grant of inspection of documents;

and of copies, and the writing of an annual report, which, however, is not intended to be more than a skeleton of bare facts. District magistrates have recently (G.O. No. 1882, dated 15th December 1891) been required to make or cause to be made an annual inspection of the offices of the companies within their jurisdictions and a report on the same; the matters for inspection are simply those of sections 63, 65 and 69 of the Act relating to the establishment of a registered office, the affixing of a sign board, the use of a proper seal and designation on all documents, and the placing in public view of a certain statement in the Fund office; they should also, in districts where Nidhis are numerous (G.O. No. 3308, Judicial, dated 7th December 1885), make widely known, probably through their District Gazette, the provisions of sections 82-85 of the Act, relative to the appointment by Government of special inspectors for particular companies on good cause shown by a certain proportion of the members.

The only other Government intervention is that of the receipt of direct taxes under the Income-tax Act and Municipal Act (if in municipalities), of fees at the registration of a society or of subsequent documents, etc., and of indirect taxes in the form of the usual stamp duties and fees for the registration of documents.

It will be seen that Government intervention and supervision is practically *nil;* the registrar has no powers, such as those of the Registrar of Friendly, Provident, Co-operative, Building and Loan societies in Great Britain, or of the Ministers, superintendents, commissioners, inspectors, official directors, Commercial Courts, etc., of the United States and of European countries. They are left severely alone; these nascent and tentative societies groping in an untried path are, in imitation of the great joint stock companies in commercial and industrial England, left to their own devices; the only law governing them is a law copied almost verbally from an English Act which governs and embodies the experience of the commercial companies which had, during many years of English buisiness, grown up to development, but which does not contemplate Mutual Credit or Co-operative societies with variable capital; the duties of the registrar of such companies have been imported without the duties of the Registrar of the Friendly, etc., societies, which alone correspond in England in objects and character with the Nidhis of Madras. In England, direct supervision and control are found increasingly necessary, and are universal in Europe, where the laws are specially framed to include these societies, and Government departments (Italy and Germany) are specially charged with important duties; in fact for the most complete exposition of Government interference in banking, it is necessary to turn to the United States of America, where the National banking system, now ramified throughout the States, is minutely regulated by the law, and placed under the direct control and supervision of a commissioner appointed *ad hoc,* and where the Savings banks and Mutual Loan associations are placed under the special supervision either of the Superintendent of the Banking department (New York) or of the special Savings bank commissioners (Massachusetts), etc.

Nevertheless in India, where public opinion is almost *nil,* the Native press in its infancy communications incomplete, the business sense and organization wholly imperfect, and individuals usually too timid, poor and inert to withstand or prosecute influential directors or associations, public banking companies are left to find their own way, and to work after their own methods, and to fail, either simply or fraudulently, without public notice or control. "Laisser libre" is good, but freedom in exchange, or in production, or in contract, does not, under Indian conditions, necessarily result from simply leaving business free, but in taking precautions that it is really free for all, and that all classes can trade or contract under equal conditions; it is certain that if direct care and supervision are needed even in Europe, there must be, in India, at least an equally active *surveillance* and possibly even stimulation and guidance.

Forty years in Germany have sufficed to found several thousand popular banking institutions doing a business of £150,000,000 per annum; thirty years in Italy have brought into being about 700 such societies, doing an annual business of at least £60,000,000 forty years in Madras have produced only 135, and these are of extremely limited scope and of generally small business outside of Madras town, while their numbers are annually decreasing. Yet the conditions of the presidency are not unfavourable; communications are nearly as good as in much of Europe, better perhaps than in Southern Italy; justice is at least equally free, accessible, pure, cheap and prompt—they grievously err who think that European Civil Courts are models of cheapness and promptitude; there are very many educated men; trained in offices of Government and business, scattered through the country. What seems wanted is *initiative,* and the opinions of the most experience Nidhi officers is that external impulse is a necessity, that Government must give not only the initiatory impulse, but a continued impulse, combined with an active supervision so arranged as to provide against the abuse of the powers and privileges that may be given, and against undue divergence from the rules, aims and methods of the several societies, while avoiding an irritating and enervating control. This supervision must be paid for by a *pro ratâ* contribution from the various Funds.

Results.—The question arises as to what these Nidhis have achieved; this may be considered under number, strength, financial position, amounts advanced, the use made of the loans, the effect upon members.

Number.—The following table gives the number and capital of the Nidhis for a series of years:—

Year.	Number at close of year.	Nominal capital.	Paid-up capital.	Percentage paid up to nominal capital.
		Rs.	Rs.	
1885-86	202	2,34,29,087	54,14,614	23
1886-87	269	2,57,81 140	77,64,064	30
1887-88	262	2,58,41,912	93,47,608	36
1888-89	208	2,44,49,620	96,31,712	39
1889-90	175	2,40,93,254	85,05,300	35·4
1890-91	151	2,35,41,197	75,39,610	32
1891-92	135	2 33,81,933	78,96,519	33·3

The rapid increase of these Nidhis culminated in 1886-87 with 269 societies, and $2\frac{1}{2}$ millions sterling of nominal capital. From that year they have fallen rapidly till, in 1891-92, only 135 are found; whether this is the end of the descent remains to be seen. Above half of the existing Nidhis are in the Presidency town. The table, however, does not show the whole facts; in the earlier years scores were newly started annually, while nearly as many dropped out; the figures are merely the numbers existing at the end of each year and do not show births and deaths. The following table gives a further history and shows the rapid rise and fall in numbers:—

Year.	No. in first year of quinquennium.	No. in last year of quinquennium.
1872-77	20	49
1877-82	54	80
1882-87	93	269
1887-92	262	135

During the five years ending in 1892, no less than 260 Nidhis were wound up, of which 181, of 70 per cent belonged to Madras town, 37, or 14 per cent, to the Chingleput district, 26, or 10 per cent, to North Arcot, 7, or $3\frac{1}{2}$ per cent, to Salem, and the rest to five other districts. Curiously enough, the Nidhi method has hardly extended to the great Tamil districts of the south.

It is a somewhat disappointing result of so many years' example and work. The most serious feature is that, although considerable success has attained properly managed institutions in Madras City, and in a few up-country towns, hundreds of both Madras and mofussil Nidhis have collapsed showing either ignorance, mismanagement, want of capacity, fraud, or, as regards mofussil Nidhis, an unsuitability to mofussil conditions, or else external difficulties which require removal. These matters will be dealt with under ' difficulties and defects.'

Financial Position.—The first table in the preceding paragraph coupled with the history derived from the liquidation reports, etc., discloses interesting facts; (1) it is clear from the statistics of nominal capital and from the numbers that a large number of petty Nidhis with small capital sprang up prior to 1888; (2) that these small Nidhis rapidly died out, so that, while in 1891-92 only 262 with 258 lakhs of nominal capital, or one lakh apiece on an average, there were in 1891-92 only 135, but these had a nominal capital of 233 lakhs or nearly $1\frac{3}{4}$ lakhs each; (3) that in 1888-89 the Nidhis reached their highest point of paid-up subscriptions which then fell off rapidly till 1890-91, after which they have begun to rise; (4) from the liquidation reports, etc., it is clear that the elimination of these petty Nidhis is due to inherent weakness, to inability of the directorate to cope with irregularity and unpunctuality, possibly because they were isolated and unsupported, and possessed no special ability to coerce or guide their members in methods of business and even of common honesty. This will be adverted to at length *s.v.* ' Difficulties.'

But it must not be inferred that small societies are necessarily weak, nor can any such argument be drawn from the statistics *per se*. A Nidhi with few members may be financially stronger than a large one, for the liabilities of these societies increase in a greater ratio than their stability, owing to the decreasing possibility that the directorate should personally know the status and value of the members, and owing to the greater chances of fraud and mismanagement.

Nor is any good inference to be drawn from the ratio of paid-up to nocimal capital; these societies at incorporation fix their nominal capital at a purely fanciful amount, limited of ten merely by the cost of the registration fee; hence a large capital, nominal or paid-up, shows necessarily neither weakness nor strength, but simply more or fewer members, or—since the paid-up capital necessarily increases with the age of the society—a greater number of shares approaching maturity; and therefore greater liabilities on the society; in fact, it is obvious that as shares approach maturity, *i.e.*, as the paid-up capital increases in proportion the nominal capital, the society finds itself in the difficulty of having to provide very large sums, which is often done by attracting deposits at high interest.

Strength.—Figures are largely wanting, since a great number of the Nidhis to which queries were issued have sent no answer. But twenty of the chief mofussil Nidhis have 5,924 members or 296 each this is possibly too high as a general average, for the Nidhis in question are the chief examples of mofussil societies. In Madras town there is one with above 3,000 members and in the Ceded Districts another (not included in the above twenty)

has 1,400 members, but these are exceptionally strong; the former commands not only the best talent in Madras in its management, but with that management, the confidence of the public, chiefly official and mercantile. It is probable that there are above 35,000 members in all, each possessing something over Rs. 220 as paid-up capital. This is no bad beginning in unaided co-operative effort; it is disappointing, in that it might have been, by this time, in a more advanced stage.

Amounts advanced.—The table above shows that the paid-up capital of the 135 Nidhis is Rs. 78,96,519. As elsewhere shown deposits are small in amount and temporary, and do not greatly exceed the temporary loans, reserves, cash in hand, etc.; hence the amount available for regular advances under the Fund system is practically that of the paid-up capital only, or say 80 lakhs, and the whole of this is usually out on loan.

Now this capital is paid by monthly subscriptions, the shares maturing in from thirty-six to eighty-four months; the average may be taken as five years, so that the annual share subscriptions of the Nidhis probably aggregate about 16 lakhs of rupees. But the duration and the amount of the regular loans correspond with that of the shares, each loan of Rs. 100 corresponding with a share of that value; hence the average 'permanent' (subscription) loan is also five years; consequently the average annual amount available for advance is also about 16 lakhs, to which must be added the accruing interest, etc. Hence something like 20 lakhs is probably the annual amount available as regular advances on shares, mortgages, jewels, etc. This amount is largely lent in the Presidency town, in which about four-sevenths of the Nidhis are situated. Hence the Nidhis do not, as yet, absorb much of the loan business which, in 1891, amounted for the presidency to 650 lakhs for mortgages alone; certainly not more than from 2 to 3 per cent. of the Madras presidency debt is taken up by them, and not more than 2 per cent. of the mortgages. Moreover, since most of the Nidhis are in towns and agricultural members are about one in eleven, the result to agriculturists is small and to agriculture proper inappreciable.

The number of annual loans of all classes is not known, but the following table gives the figures for sixteen Nidhis, which alone have supplied answers to queries:—

Number of Nidhis.	Average annual number of loans.	Below Rs 100.	Above Rs. 100.	Average amount of each loan.	Below Rs. 100.	Above Rs 100.
16	4,369 (273 per Nidhi).	2,130	2,239	Rs. 168	Rs. 43	Rs. 255

The average annual number is unduly high, since the table includes a Nidhi which is really a Commercial bank dealing in short-term loans; this has only 333 members, but accounts for 1,642 loans; if this Nidhi be excluded, the average per Nidhi is 182. This is still too high, as the fifteen Nidhis supplying figures are mostly of the best and largest class. If 100 per Nidhi be a fair average, the loans annually granted by 135 Nidhis would be 13,500; multiplying this by Rs. 168, the average of each loan, the annual loans would aggregate Rs. 22,68,000 on all classes of loans, regular, temporary and small lot.

Use made of the Loans.—A very large number have been used in house-building, showing that the Nidhis fill a position similar to that of English and American Building societies. The payment of old debts is very frequent, marriage expenses are a considerable item, as also land purchase; land improvement and well-digging are very rare. It is stated by most Nidhis that the grant of cheap loans has done much for the help of the members, but the want of funds is frequently mentioned as a reason for not doing much more. Several Nidhis, especially in the Ceded Districts, state expressly that many of their members have, by joining the Nidhi, "been relieved from the clutches of the money-"lender," and personal enquiry on the spot amply confirms this.

Results upon members.—It is asserted that habits of thrift, foresight, business punctuality, public spirit have been aroused and strengthened: this is probable. On the other hand, very experienced men consider that cheap money has often begotten unthrift and extravagance, and they consider that to attain their full measure of usefulness, the Nndhis should control, in some measure, the purposes to which credit is put. This corresponds with the opinion and practice of the best European authorities and may be taken as axiomatic; it is not merely cheap credit, but controlled credit that Nidhis should supply. Of what benefit is it to a man that he can borrow Rs. 1,000 for a marriage on no higher terms than Rs. 500 formerly, if it merely leads him to borrow and spend accordingly? "Lightly come, lightly go," is but the record of experience. Nor is it less embarrassing to owe a bank Rs. 1,000 than a sowcar Rs. 500; in case, indeed of the borrower's death, it may be much more so, from its greater amount.

Unpunctuality is much complained of, especially in the case of members who do not draw regular monthly incomes; this is but natural, and is found in Europe and the United States also, among the non-wage earners, such as peasants, shopkeepers, etc. This fact points to the need for an adaptation of the system to such classes; it is *á priori* impossible that societies started for and by official and other stipendiary classes, should suit those whose incomes are of uncertain date or accrue only at certain seasons. Out of seventy societies taken at random, of which the winding-up reports were analysed, no less than forty-two failed solely or chiefly because of arrears; both benefited and non-benefited subscribers made default, but especially the former.

It seems that punctuality is in India the hardest to learn of all business lessons, and, as has been stated, it is probable that unpunctuality is connived at, if not encouraged, by reason of the heavy penal interest which results; in one Nidhi three-tenths of the income was from fines; in another and very large one, the net profits, after deducting guaranteed interest, were practically obtained from this source. Here then is another result of the greed for dividends; if these were fixed and all surplus went to a reserve or to works of utility, it would no longer be the interest of managers to allow unpunctuality, and the Funds would serve the great purpose of instilling the virtue of punctuality into an unpunctual clientele.

Advantages, actual or possible.—These will have been understood from the foregoing sketch; they are the introduction of co-operative principles and habits, the stimulation of thrift and providence, the inculcation of business habits and punctuality, the cheapening of credit, the insuring, so long as the rules are observed, that the members will, if non-borrowers, get back their money with interest, and if borrowers, that they are secure from all annoyance so long as they pay their dues punctually, and that all dues will be rightly credited to their accounts; business is extended by cheapening loans, and not by entrapping the unwary and ignorant; profits are to be sought by the development of cheap credit and not by squeezing the individual debtor; the interest of all members, but especially of borrowers, is, or should be, the primary aim of the directors, and not the development of large profits for the benefit of the directorate and the non-borrowers. Small savings are duly cared for and receive interest higher than can be obtained in the Savings bank; sums nearly as small as savings deposits are received with the educative benefit of compulsory regularity; petty capital is retained in the neighbourhood in which it is saved, and utilized *in situ;* societies and borrowers are in immediate contact, so that the expenses of enquiry and insurance against risks are reduced to a minimum; debts are repaid by a series of small equal instalments, so that, while the borrower repays with ease, the society can recover in the Village Court, and its security increases in proportion as the debt is repaid; all payments are recorded in the member's pass-book, so that he can note the amount at his credit or the balance which he owes at any moment; the accounts of the society are, to a certain extent, published, and audit is not only possible but general.

Such are some of the possible benefits of the Nidhi system, and many of these are realized in daily practice, nor is there the slightest room for doubt that these societies, whenever they have been properly worked and supervised, have been of very great benefit to their members in so far as regards the grant of fairly cheap credit, easy methods of repayment, and genuine accounts; it is needless to contract these advantages with the conditions of private lending.

Defects.—There are, however, defects in these Nidhis; these fall under three main heads (1) defects in constitution, (2) limitation of scope, operation, and influence, (3) divergence from co-operative ideas. Many have already been dealt with in the section on 'Methods.' (*See* reserve, deposits, profits, loans, audit.)

Defects in Constitution—*The Secretary.*—Undue powers are often granted or too much is entrusted to a paid secretary. In the United States Building societies, which nearly correspond with the Nidhis, stress is laid upon the necessity for all responsible work being done by the directors; the usual plan is to elect annually nine or twelve directors (re-eligible), of whom three or four are appointed in turn for three or four months to carry out at the office all the work; the secretary is or should be the paid manager, but not the controller.

In this country a clever secretary is very apt to concentrate all the powers and functions of the directorate in his own hands; the latter are often too busy with private affairs, too ignorant, too incurious, too unbusiness-like, not to be but too ready to do as they are told, and to sign their names after and even without a superficial glance at the affairs of the Fund; the cleverer the secretary, the easier it is made for the directors, and the more readily do they resign their powers and functions to him. Out of seventy liquidated societies, nine (five certainly and four probably) failed from too implicit confidence in the secretary. This is a radical defect and cannot be combated by the most perfect set of rules. it is a defect which, with several similar ones, demands external—not necessary Governmental—supervision.

Administration.—The methods and cost of administration are also defective. The directors frequently have no real stake in the concern; they need not be large shareholders; they give no security for diligence and good conduct or even for common attention, and are apt to be negligent; far too many are or have been congeners of the English "guinea pig." On the other hand, while lacking both the enthusiasm and diligence of philanthropic trustees or managers, and the hired activity of well-paid officers, their aggregate fees often amount to an undue share of the necessarily small profit. As elsewhere stated, gratuitous administration by the directorate is almost necessary to the success of mutual aid societies so as to avoid divergence towards operations aimed at large profits, to strengthen the principle of mutuality, to increase the profits of or diminish the cost of loans to members. A paid staff or establishment is a necessity; an unpaid directorate is a desideratum.

Not only should it be unpaid or granted but moderate honoraria, but it should, as in America and Europe, be led to take an active interest in, and a large share of, the actual work of the society; not merely one or two of the directors, as is usually the case, but all the directors in turn (*see* 'Building societies,' United States). Work which is done personally in America and Europe by men of business and position, acting as directors of

great societies, in the way of actual dealing with the individual members and their individual business, is far too often thought beneath the directors of Nidhis, partly at least because the society is considered a mere dividend-paying concern and not as an association of persons to be helped and studied; it is one result of the joint stock as against the co-operative idea: directors are too often mere shareholders of some social position locally, drawing extra profits for the sake of their name, and not even as the reward of extra deligence.

It is advisable that directors should have a considerable stake in the society; they should necessarily hold a substantial number of shares which should be inalienable and unpledged for loans, and should also deposit a fixed sum which should have a paid interest. No director should be allowed to borrow from the Fund, or become security for a loan except under special precautions, as in Europe—when such borrowing is allowed at all —by the vote of a general meeting or by the express permission of the committee of supervision.

The cost of establishment, as usual in small Indian corporations, is apt to be excessive. Nothing in India seems possible, even in the smallest corporations, without separate gumastahs and peons, whereas one secret of European and American success is the utilization of men already occupied in some other cognate business, and who are, therefore, paid merely for the expenditure of their spare time. In the smaller class of Nidhis the pay of a gumastah swallows up much of the profits, while the salary which can be afforded is too small to attract decent men. In one petty Nidhi, for instance, the mere establishment (gumastah, peon, etc.) costs Rs. 22 per month, whereas the clerical work which ought to be done as in America and Europe, by directors at their weekly meetings for the receipt of subscriptions, grant of loans, etc., could be done easily in six hours per week. In another the total interest received in the year was Rs. 508, while its establishment—irrespective of the remuneration to directors and office-bearers—was Rs. 245, in addition to which it paid Rs. 65 for a peon and Rs. 56 as house-rent. True, it was newly established, but it began on an extravagant scale, and its income shows how little was the actual work. If a small Nidhi of 100 members had only one office-day per week, the directors could attend on that day for the transaction of business, office establishment (the village kurnam or other) could be reduced to a minimum, the directors would learn to take a personal interest in the business, unnecessary expenses would be avoided, and profits increased or the cost of loans diminished. In America the work would all be done by the directors, with a minimum of hired assistance, and the use of a room once a week. In brief, small Nidhis, which must form the bulk of rural societies, ought to work through an unpaid directorate and by a staff paid only for the use of its leisure; this is in fact successfully done occasionally.

The rules are often good or fair, but their observance is often bad; *e.g.*, valuations of property are often not properly checked whether on the application for the loan or at the annual verification prescribed by some rules; verifications of valuables in the safe are apparently—to judge by several known and recent cases—not closely and frequently checked by the permanent auditor, so that theft and misappropriation are possible: safes are provided with three or four keys for different individuals, but all the keys find their way to one person. There is much need of supervision to enforce the observance of the rules, but there is no committee of supervision to enforce such observance as is universally found in Europe; it is curious that in 1893 an amendment to the rules of the largest Madras Nidhi proposed precisely such a "committee of control" to supervise the work of the managing committee; the result of the proposal is not known.

Control of the use of Loans.—The non-supervision of the use to which loans are put is a defect. The successful Raiffeisen and Wollemborg Rural Loan societies in Germany and Italy very rigidly control the use of credit by their members, a control thoroughly recognized in all loans for land improvement in all countries. If Nidhis are, as Co-operative societies, to fulfil their complete role, it must be in guiding aad controlling the use of credit. But the special defect of these Nidhis in common with their prototypes, the so-called Building societies (really Credit societies) of England and America, is that borrowing is often encouraged by them: in order to make profits and to prevent money from lying idle, it is absolutely necessary that loans should be taken. At present in India this is no great defect, for the borrowers are usually in the proportion of three or four borrowers to one investing member; on the other hand, when they were established and profitable, as in America and occasionally in Madras, they become places of investment, and it is then necessary to encourage borrowing: in America, there are often rules *to enforce* the taking of loans by members who do not wish to borrow.

In India the reasons for keeping control over the borrowing are (1) the practical necessity for securing the return of the money lent; (2) the profit to be derived from a productive investment, and the necessity for developing production; (3) the high moral and educational purpose which societies serve by such control. There is nothing utopian in the suggestion that credit must be guided, and its use controlled, for it is a practical fact in modern Europe; there is nothing of sentimental or meddlesome philanthropy in it, for it is promoted and executed by thousands of businessmen in those countries; there is nothing derogatory or superfluous in the proposal, for that which is found useful, nay necessary, in Europe, can hardly be a superfluity or an indignity in Southern India, nor is there any derogation from men's individual dignity or self-reliance in an association of themselves which, under their own self-made rules, shall teach and help them to raise themselves from poverty to comfort, from dependence on the usurer to independence,

from ignorant and reckless or at least careless expenditure to the calculated, provident, and productive use of capital. It is bad and mischievous to put and keep men in State leading strings: it is the highest art in statesmanship to contrive that they shall control and guide themselves in the narrow path of prudence and organized effort.

Loans are very frequently taken to pay off prior debts, usually usurious; this is, indeed, the primary object of many societies as stated in the Articles, but no trace is found in practice of any society assisting its members in arranging with their creditors. One of the claims most strongly urged by promoters of proposed Agricultural banks is the prior liquidation of debts by Government; in this presidency this may not be needed and has not been claimed. But, since even in this presidency the money-lender and his clients are too often as the spider and the fly, it would be highly advantageous that an attempt at compromise or settlement should be undertaken by the bank whenever a borrower wishes it, so that the experience and influence of the bank might assist the ignorance of the client. Heavy discounts can usually be obtained for cash down: the bank might, though not advisably, claim a portion of this for its trouble. At present the debtor arranges his own terms, and merely borrows from the bank which takes no part in the settlement.

Arrears.—Out of seventy societies, the history of whose liquidation during the past seven years has been traced for this report, no less than forty-two, chiefly in the Madras town, failed because of the arrears due by borrowers. Part of this failure to repay loans is due to the characteristics of Indian society, which often will borrow simply because it can borrow, and without a calculated thought as to repayment and the reproduction of the loan; part is—during the last two years—due to poverty and distress due to seasonal failure, though this is rare, for the Funds were seldom rural; part is due to sheer want of supervision over the use to which the loans were put. It is but inviting bankruptcy if money is allowed to be borrowed without the probability of a profitable return: if a man's income is, *ex hypothesi,* insufficient for his wants and he has to borrow, how can it be sufficient to meet those wants *plus* the amount required for repayment, unless the loan has been so spent as to reproduce itself with profit? It is not mere credit that is wanted in India; credit may easily ruin more than it benefits; cheap and facile credit only tempts to easy extravagance; it has been found even in England (*see* Lord Vernon in the 'Nineteenth Century' for June 1893) that the mortgages of the Land Improvement societies repayable only by long-term annuities, lead to rather reckless borrowing, because the repayment is gradual and unfelt; how much more in this country may easy long-term credit lead to careless expenditure? If even land improvements have been rather recklessly made because of the facility for repayment, how much more may mere extravagance be similarly fostered? The gist of much correspondence and conversation is summed up in the laudatory words of an experienced and enthusiastic subscriber to a large Fund, "Yes the Fund "does much good; a man may borrow Rs. 1,500 and spend it on a marriage, and repay it "without feeling it." That is precisely the danger; because he can pay without feeling it, he will often borrow beyond his position or necessity, for any purpose that may seem immediately desirable; thence even Nidhis may actually promote, though of course unintentionally, disaster and even crime. In one mofussil town a recent serious murder is traceable—it is believed—to the heavy indebtedness of the murderer to a Fund, money being necessary to him at any price to clear his debts; an experienced police officer alleged that the indebtedness to the Funds of many police and others on small pay, was such as to cause much trouble. For the sake, then of the societies and for the sake of its borrowers, insisting on profitable investment of the loans, including, of course, the liquidation of prior usurious debts, and similar useful expenditure.

Part, however, of the arrears is due to legal difficulties in recovery. The bulk of existing societies find indeed little difficulty, because they are generally established in good business localities, where securities are good, where members and loans can be settled, and where there is a Civil Court at their doors. This matter is dealt with above *s.v.* 'Recovery of loans,' and the remedies are elsewhere (*see* 'Law') suggested.

Encouragement of borrowing.—One fault of this class of society is that borrowing is apt to be encouraged. To prevent money from lying idle and to promote competition at the auctions, is obviously to the interest of the society; in terminating societies it is *necessary* to compel either borrowing or withdrawal as the end of the term approaches. Apart from this, however, the mere constitution of the society tends to borrowing, for it is the borrowing member who runs no risk of loss if the society fails; he can but be made to pay up his shares, and this he must do in any case to repay his loan; meantime he has already had in his loan the full value of his shares; *e.g.*, a member has ten shares which will mature at Rs. 100 each; he borrows Rs. 1,000 on regular loan, the contract between himself and the society being, according to rule, that he shall repay his loan by the mere payment of his share subscriptions. It is to be remembered that shares in these societies do not resemble shares in joint stock companies; in the case of borrowers they are simply methods of repaying the loan; in a joint stock company a shareholder who borrows from the society is liable for his shares *plus* his loan; in these societies the shares are simply the means of paying up the loan. The society goes hopelessly bankrupt, and all its share funds are required to repay its depositors. The liquidator collects the share instalments as they fall due; according to the borrower's contract he pays regularly; at the end of the given period he has paid up his shares in full and consequently, according to his contract, he has wiped off his loan: the loan and the shares are not two separable sums; they are one and the same; consequently the liquidator has no further claim on the borrower: he

cannot claim upon the loan, for it is paid off, nor upon the shares, for they are fully paid up. A non-borrowing shareholder, on the other hand, will equally have to pay up the value of his shares, which, *ex hypothesi*, will be swallowed up by the failure, so that his membership will result in nothing but loss. In fact the non-borrowing member pays his shares out of his own pocket, and the borrowing member out of the society's. This is an extreme case and ordinarily the non-borrower would obtain, as a creditor, part of his matured share, but the principle is true.* The difficulty is inseparable from the class of society; so long as savings are exposed to the risk of failure by reason that the bank is a credit bank, and gets its profits from lending, so long will its members safeguard themselves by borrowing from it.

In England, though the Building Societies' law is quite different, the result is the same; non-borrowing members pay all losses. The law (S. 14) declares that all non-borrowing members shall be liable, in case of failure of the society, only to the amount which he *has* paid, or for which he is in arrears; a borrowing member's liability is as regards any shares " upon which an advance has been made, limited to the amount payable thereon under any mortgage or other security, or under the rules " of the society." Hence a non-borrower may lose all that he has paid in, while a borrower merely pays back what he has borrowed, as he would have had to do had the society not failed.

In the chapter on ' Law ' it is proposed to minimize this difficulty which seems inseparable from the method of repaying loans solely by regular subscriptions to shares by requiring a separate small contribution in the way of an insurance premium, payable with each subscription by borrowing members; such sums to go solely to a special reserve, the whole of which shall be payable towards the society's losses in case of a winding up. This can, however, be provided by the Articles of a society, and need not be a legal

Monthly subscriptions.—Every society, with one exception (*see* description of Fund A, *ad finem*), requires periodical and regular subscriptions, at least as often as every month. It is obvious that thi sis unsuitable for agriculturists who have no income other than their produce; no ryot can command a regular monthly income from which to pay the Fund subscriptions. If he is able to pay regularly during the six months succeeding harvest, it is as much as he can do, and he can hardly do this with regularity, as so much depends on his crops and on the markets. Some other mode of subscription must be found. In some societies there are agricultural members, and these, if respectable, are allowed to be behind hand with their dues for some months, paying up at harvest, with however, penal interest. This is a clumsy and objectionable turning of the difficulty; habitual breach of the rules ought not to be permitted even for a good object.

In the above society (A) the plan adopted is to require the repayment of each Rs. 100 by five instalments of Rs. 25 each at nine-month intervals; this is a convenient method, but the period is bad, since, in each successive year, the repayment date alters, and must therefore, on several occasions, be unsuitable to an agriculturist.

It is said that payments-in are frequently received without the production of the pass-book; this should be strictly forbidden.

Audit.—The necessity for this has been dwelt upon above.

Isolation and want of Union.—One great defect is that each society stands alone, or is actually in competition with others in the same locality. The principle of mutuality or co-operation at all events should be extended, not merely to the members of a society, but to societies as members of a union, as units in a public organism. Each society would be the stronger for being a member of a union; an isolated society commands less confidence than one which is recognized by a far-reaching union, which in itself inspires confidence as being at once the outcome, the stimulus, and the visible expression of a great system, organized and controlled by the best practical men of the country, and therefore commanding public support.

What is wanted is a Union of the various Nidhis, formed by the action of the best men of Madras and the mofussil who have had practical experience of the working of the Funds; this Union would advise and assist nascent societies, supply through trained inspectors and auditors, a very desirable supervision free from the *odium officiale*, give form and stability to the whole system, and inspire public confidence; it would issue a monthly journal devoted to the stimulation of thrift, providence, credit and co-operative benefits generally, and to the development and criticism of their societies; it would collect formation, discuss matters of interest, hold congresses, send out lecturers, and address the authorities in matters of legislation or executive supervision; it would be, at the same time, the instrument by which Government would be informed of the progress, condition and wants of the societies, and through which Government could issue suggestions, aid and information. This and many other purposes including, perhaps, as in Germany and Italy, the function of intermediary between societies with surplus funds, and those requiring them, would be served by a Union or League such as is now found essential both in every European country and in the United States.

Not only so, but it could maintain a general " castelletto," or credit register, in which all persons within the Union area who are likely to borrow or stand surety, would be entered, with the amount for which they are good, so that individual societies could b-

*In a U.S.A. Consular Report for 1893 a similar remark is made regarding English Building Societies after speaking of borrowers the report says, "Losses, if any there be, fall exclusively on the investing (non-borrwing "members." No change has, however, taken place in the way of apportioning losses; these still fall exclusively upon "the investors in permanent societies." (Consular Reports, Vol. XLIII, No. 156, Washington, 1893).

fairly certain in operations with men outside of their immediate neighbourhood. It would be possible also to add to this a register of actual loans as issued by each society, with the names of borrowers and sureties; this would obviate the trick occasionally played where there are numerous societies in a large town, of one man with the same sureties borrowing to the full value of his credit, from each of several Funds, each Fund being ignorant of the transaction with the other Funds.

Extension.—The societies do not seem to have aroused that enthusiasm and energy which is so marked a characteristic of European co-operation. This is partly due to the fact that they are considered commercial rather than co-operative societies; co-operation in its modern or western form is hardly a name in India, must les san idea, still less an energizing principle. The true Co-operative and Benefit societies of Europe do arouse enthusiasm and energy in a marvellous fashion; the dominant ideas of helping one's self and helping another, become, when once aroused, dominat; the Co-operative societies, whether the English Friendly societies, the American Building socities, or the Raiffeisen and Wollenborg Unions of Germany and Italy become invariably the object of affectionate pride and enthusiasm, but it is difficult to fall in love with a joint stock company or a dividend machine; the joint stock company may fill the pocket, but not the heart. The replies to printed and oral questions are disappointing; the members do not ordinarily take much interest in the Funds, though benefited by them, and there seems to be no active propaganda to tell of the benefits of the system, and to encourage others either to join or to form new societies. It appears that if the methods and benefits of these and similar societies of a more developed character and aim, were more widely and clearly known, and if individual energy were more continuously stimulated to an active propaganda, there might easily be fifty societies, and those of a more advanced type, for every one now in existence. Energy, perseverance, courage, the deliberate sacrifice of time and labour, tact and local influence, transparent honesty both of purpose and in dealing, business capacity and knowledge are needed to solve the problem. Stress is laid upon knowledge, not only because it is of itself powerful, but because without it there is so much waste of energy in blindly labouring at problems already solved or in process of solution, and because, without knowedge, energy may be positively mischievous as in the case of many an English Benefit society. A stimulated and guided private initiative is needed; these societies are already successful even in the mofussil, though they have never received the slightest external help or privileges or control, and there is no reason why small local societies after the German and Italian patterns should not become universal within a generation.

Limitation of Scope—*Funds.*—The societies are not banks, except in a limited fashion they do not receive deposits except occasionally and to a small extent; they are financed almost entirely by the subscriptions of their members. Since three out of four members join or order to borrow, it follows that many must either be wholly disappointed or obtain loans years too late. A further result is that the competition for loans under the auction system must be and is severe, the premium ranging as high as 25 per cent. in known cases, so that the cost of a loan is unduly heavy; if external capital were plentiful, this difficulty would cease. If these societies are to succeed, they must be financed by deposits as in the Popular banks of Germany and Italy, or by debentures as in the case of the Land banks, or by savings deposits as in the case of the Savings banks of Germany, Italy and the United States.

The following concrete case shows the defects of the Nidhi as a Credit society. Suppose a Nidhi with 100 members, paying a monthly supbscription of Re. 1 each for a term of eighty four months, guaranteed profits on shares are at 6¼ per cent. per annum, viz., 1 pie per rupee per month, so that Rs. 84 paid in at 1 rupee per month are repaid at maturity as Rs. 102-12-6; regular loans pay the same rate of interest—a common practice—viz., 6¼ per cent. per annum on the whole loan for the whole term with counter-interest at the same rate on the monthly subscriptions; all borrowers are amongst the members, and for the sake of simplicity, let there be no admissions; loans are repaid as usual by the ordinary monthly subscription. Then in the first month 100 members pay in Rs. 100, which are at once let out to one of them, A, on loan; at the end of the second month Rs. 100 are subscribed and let out to another member, B, and so on. Thus at the end of twelve months eighty-eight members will be investors and only twelve borrowers; the society is still 100 members, viz., 88 *plus* A to L and only Rs. 100 will be received monthly; the only addition to the funds is the interest paid in on the loans, which, in twelve months, will amount to about Rs. 40, not enough for even one further loan. In sixty months there will be about thirty non-benefited, and seventy borrowers. Hence it is clear (1) that members will get loans very slowly, the majority having to wait for years; (2) that the loans even at the above rate cannot exceed Rs. 100 each which is insufficient; (3) that there can be no profit, for the interest paid by borrowers is balanced by the counter-interest, *plus* interest to investing members; (4) that if only 70 out of 100 wish to borrow, the interest payable by the Fund will exceed that paid to it after about sixty months; (5) that it is thus clear that profits are obtained really from other sources, such as from loans other than regular at higher rates than regular loans, from compound interest obtained, as against simple interest credited, and, especially, from fines; (6) that a properly worked Nidhi ought to pay somewhat less interest than it receives; (7) that for this reason, and in order to give loans quickly free from competition and cheaply, the Nidhi funds ought to be derived chefly *ab extra* at about 1 per cent. or more below the interest received from borrowers.

Personal Credit.—The experience of Europe is that personal credit is the true form of ordinary agricultural credit when land improvement is not the object of the loan. By 'personal' credit is meant that dependent upon general status, upon character, upon the worth of the individual in every way, whether principal or surety. The loans appearing under this head in the Nidhi tables are numerous; this head however includes also the loans based on the security of the borrowers, partly paid-up shares, and these are merely temporary withdrawals of the sums already subscribed. Madras City societies actually object to personal credit proper, by reason of the facilities for proceedings in bankruptcy, and one large society attributed its ruin to these loans. But it would seem that disaster is rather due to the careless lending on bad security, and especially to loans made through favour; it is not the principle, but its abuse that causes ruin. Several Nidhis in the mofussil—one situated in a small town in the Ceded Districts, and having nearly, 1,000 members—deal principally in this class of loan and are prospering; they do not admit mortgages on immovables. Their clientele is chiefly of the trading class, but, as elsewhere shown, agriculturists' credit it at least as good, and usually has tangible property to strengthen it. This form of credit must be developed, in the form probably of three or six months' bills or bonds with sureties, and with prolongations to twelve or eighteen months.

Want of Development.—There seems to be no power of evolution in the societies. With one or two small exceptions there has been no attempt in forty years to adapt the societies to the needs of agriculture; there has been but one to depart from the beaten track of monthly shares, from the old methods of financing the societies and of granting and repaying loans, from rules laid down by one society and copied bodily by mere imitators. There are so many requirements in agricultural credit, and so many modes of supplying them, that it is discouraging to find nothing original in the methods, nothing new adopted or invented. There seems a want of inventive thought or of adaptability on the part of those who would reform the peasant, his agriculture and his status by organized credit.

The needs of agriculture are not merely for land improvement nor is a Savings bank his special want, seeing that his land is his best Savings bank; he requires a bank in which he can very temporarily place the surplus value of the crops he has sold, and from which he can borrow short-term loans for pressing needs while his crop is unsold, or longer-term loans for a purchase of seed or stock. For this last the Nidhi term of four to seven years is good, but the hard-and-fast rules of the monthly instalment is wholly unsuitable. Nidhis to be successful amongst the ryots must meet these needs. This is not all; these Funds profess to be mutual associations and their rules are modelled upon those of such societies, though they are governed by wholly different laws. Now, in Europe, the marked feature of a Mutual association, and probably that which chiefly differentiates it from a joint stock company, is its ability to act on its members individually and socially, to promote not merely the organization of facile credit or even habits of thrift and punctuality, but to become the active centre of economic and other progress. Whether the association be an English Friendly society, a Co-operative store—properly so called—as at Rochdale, a German or Italian Popular or Rural bank, a French Agricultural association, or an American Building society, the result in innumerable cases is social development through the power of association; out of the original society or side by side with it, there spring up stores, banks, libraries and reading rooms, model dwellings, schools, Agricultural or Industrial associations, even trades; the Store society begets a bank, a school, a library or its own workshops; the Agricultural association develops a credit branch and a store; the Popular bank is the origin of a farmers' club, with its stud bull, its meeting room, its agency for stock, manures and supplies, and the like.

But, in this presidency, so far as is known, not a single Nidhi, however large and powerful, has, in the twenty or more years of its existence, ever developed a single by-product, even where its directors and members are among the best in the presidency: a certain portion of the funds has been given in charity or to religion, but in no single case has any subsidary action been evolved: the associations might be mere joint stock aggregations of capital instead of associations. This is, in fact, probably the cause of this defect; the Funds have only shareholders and not members; they are not groups of *persons* in active associations, but groups of accumulations of funds receiving profits. If the true co-operative idea had seized the promotors, the directors and the members of these Nidhis, there could not fail of further developments: like begets like, whether it be money or mutual help.

It is in the hope that a perusal of the methods adopted in other countries may furnish new suggestions to the practical thinkers of the presidency, that this study has extended to the details of the numerous classes of banks and associations in Europe; it is not desired to thrust the systems of other countries upon the presidency, but to supply a study of foreign and successful methods, as also of foreign failures.

Divergence from the Co-operative Idea.—This has been dealt with *passim* under 'profits,' 'administration,' etc. It has been sought to show that the desire for profits and dividends tends to the exploitation of the borrower by the investor, and to the acceptance of risky business which promises high returns. It is the benefit of the borrower that should be the first study of these Nidhis; the profit of investors is secondary. There should be the idea of beneficient and educational brotherhood, both amongst the members and amongst the societies, and not that of a struggle for profits and a competition for business; it is difficult to reconcile self-seeking with co-operative mutuality.

A note of alleged defects found in practice in the working of the several funds of a large town, has been voluntarily contributed by a number of the shareholders. The defects are as follows:—

(1) Pursuit of large profits in order to retain investing members; these profits are sometimes irregular and unwarranted.

(2) Monopoly of control of the Fund by a few rich non-borrowing shareholders under the " a stock-vote " system (one vote for each share or five shares); voting should be on the " one-man one-vote " principle.

(3). Negligence of many directors so long as profits are kept up.

(4) Neglect by many directors to attend meetings; sitting fees are small and meetings considered troublesome; hence the Fund is controlled by two or three men, very often all near relations.

(5) Office-bearers (president, secretary, auditor, etc.,) are made too permanent, whence much mischief follows; the secretary's powers should also be curtailed and directors and office-bearers should go out by rotation.

(6) When a permanent loan is taken, it cannot be returned in lump before the expiry of the whole period, unless the interest for the full period is paid.

(7) Secretaries have been known to keep up deposits by their friends at high interest, when deposits at lower interest were available.

(8) The proportion of profits going to the shareholders is too small when compared with that taken by the directors and office-bearers.

(9) When default is made on a loan, additional interest is charged thereon; this and the ordinary interest, even though not paid, are credited as assets, included as profits, and divided.

(10) Private arrangements in the way of favouritism are made with defaulters in the case of overdue loans.

(11) No proper reserve is formed out of profits to meet loans; one should be formed and maintained, and not used for religious or charitable purposes.

(12) Very frequent (fortnightly) auditing is necessary: these auditors (rather supervisors, similar to the committee of supervision, censeurses, etc., in Europe) should also determine the necessity and rate of interest for deposits, examine the position of overdue loans, etc.

(13) Proper notice of general meetings is frequently omitted; the quorum should also be raised for such meetings to prevent undue control by a few men.

(14) Penal interest on loans in arrears should be reduced after half the loan has been paid off.

(15) Rules are often defective: a model set of Articles should be framed by Government.

(16) Annual reports are not generally published, but only balance sheets.

This list of defects, real or alleged, was not in any way suggested, and is therefore apparently the result of experience. It curiously corresponds with defects expressly noted in other countries, especially in the tendency towards the controlling of societies by one or few men, towards the maintenance of high rates of profit for the benefit chiefly of investing members, directors, or office-bearers and towards a neglect of business manifested by those who should be the guardians of the shareholders.

DIFFICULTIES.—Many of these are more theoretical than practical, that is, though seemingly real in law or in argument, they are readily overcome in practice. On the other hand, there are real difficulties which do not exist necessarily, but arise out of maladministration, or decaying energy, or divergence from original aims.

There are difficulties of initiation, of finance, of administration, of law and of society.

Initiatory difficulties are due to ignorance, inertia, suspicion of novelties, distrust of motives. It is needless to discuss them in a country where they are of every day occurrence, but they are the chief real difficulties.

When men by custom borrow in particular ways and at particular rates, when they know nothing of any other methods, when they are ignorant of the powers of association in such matters, when there is a tropical form of *laisser aller* to be overcome even in those who do not know the evils of usury and the methods of combating it, when a departure from custom may be social crime, when the poor, from an unfortunate history and from ignorance, harbour suspiciions hard to overcome, there are difficulties of initiation which can only be overcome by the public spirit, devotion, knowledge, energy, and perseverance of *individuals*. That in fact has been the only way in which these Nidhis have been started; they have been successful wherever there qualities have been brought to bear, and it is by the application of these qualities that they will be multiplied as they might be at this day, since there are—it is stated—numerous men throughout the country, who possess these qualities. If there are, the Nidhis or their congeners will rapidly spread.

Difficulties of internal administration must be met by greater public spirit, more singleness of purpose, less desire for personal profit on the part of the chief members; the work is not a purely business matter; the task of arousing thrift and providence, mutual and self-help among a nation, is semiphilanthropic; wholly philanthropic in its inspirations and aims, practical in its methods.

There must be a union or Unions of existing and future societies for mutual aid and encouragement, for the provision of inspection and audit, and possibly for aid in finance.

But it is probable that Government must, for many years, supply, as in England and in the United States, a considerable amount of direct supervision, verging in some matters on control. This has been dealt with *passim*, both in this section and in the sketches of the several banks and societies of the West.

There has been one further difficulty in administration which has not been mentioned, a real and much felt one. For many years much of the best and most influential mofussil talent has been excluded from assisting the Nidhis, since it has been a rule of Government that no officials should take part in managing such a society. This rule has now been abrogated and it is open to all officials to assist their fellows in this item of public welfare. It is they who can largely afford to assist gratuitously in the directorate, while their example and their business habits, whether as directors or as thrifty and provident members, will go far to establish the societies firmly. A great number are already members, but it is as officers and guardians of the society, that they will be of much use; their position as Government officers will at least tend to prevent fraud.

Difficulties arising from the law are dealt with in the general chapter on 'Law.' Difficulties in matters of the security of loans are various; they arise out of the family system and the absence of registration of title. The difficulty is, for local societies, more in theory than in practice; a Central bank would find them insuperable in all except large business, where the expenses of enquiry would be small in proportion to the loans; small business, such as is most required, could not bear such expenses, and would be rejected. But small local societies, like the Nidhis, find no great difficulty, so long as their business is local; their directors know the status of the borrowers, who are unwilling to or dare not cheat the society, and the declarations taken from the borrowers both in the demand for the loan, and in the bond, (act as sufficient safeguards in practice; there are practically *no* suits owing to disputes regarding title or by coparceners. As regards the action of the Revenue law, very slight precautions will remove this difficulty. (*See* 'Law' *s.v.* 'Security of loans,' 'Regitration of title,' etc.)

Difficulties of recovery are not real in so far as the machinery available is concerned; the 'Village Courts' provide for all small debts. Such difficulties arise far more largely from the unpunctuality of the members, and the laxity of the administration; if members are allowed to fall into arrears they will do so; it is for the directors to see that arrears are at once sued for in the Village or other Courts, together with the necessary fines, and that defaulters are excluded after three months' arrears, duly demanded every month, the bare subscriptions, if any, being in such case returned without interest or profits. Arrears are due to laxity, and to weak or negligent directors, far more than to the unwillingness or fraud of the members.

The difficulties of finance are considerable. In a poor country the purely investing subscribers are few, and the borrowers many; in most Nidhis the borrowers are practically limited only by the loans available; it is the fact that loans cannot be got that keeps many out of the society; men want to borrow even more than to save. The subscriptions of one investor cannot provide the loans required by three or four borrowers; hence the societies *must* be financed *ab extra*, as in Continental Europe. Even in England deposits are a very large item, being equal to about half of the subscribed capital, though the law prevents this source from becoming excessive, while in Germany, deposits or loans *ab extra* in the Schultze-Delitzsch banks, are to subscribed capital and reserve as three to one. This is about the proportion required in this country, where however no Nidhi even in Madras (with one exception, viz., a European and Eurasian Fund), has deposits equal to one-fourth of the nominal capital, the proportion being usually far lower. The difficulty is that there is no sufficient security for the deposits; depositors are generally members, and *ex hypothesi* investing members. Now if a Nidhi fails, its deposits must be paid up from the share capital, for there is practically no reserve; hence depositing members would be paid their deposits at the expense of their investments. What is wanted is sufficient security to the outside public to attract outside capital, whether as deposits or as loans on debentures. Suggestions will be found in the chapter on the system proposed for Popular banks in this presidency.

The following description of actual Funds will give an idea of their working:—

(A) is instituted in a small mofussil town and lends chiefly on mortgages;

(B) is in a similar town, but deals chiefly in personal security;

(C) is a purely rural Fund in a village, established and worked by villagers. They are selected as working on different methods, and to all appearance of good management and success.

FUND (A).—This Fund was established in 1886; it has a Head office with two branches in somewhat distant towns, and 1,444 members holding 3,282 shares of Rs. 90 each, subscribed in forty-five months at Rs. 2 per month. Its objects are the promotion of savings, the provision of good investments, and the granting of loans to subscribers. It enjoys the advantages of a District Munsif's Court at its doors, and a well-to-do *entourage*, the soil being rich and the staple products very valuable, leading to a considerable commerce; its operations are limited to the area over which the District Munsif's Court has jurisdiction, that is, several taluks. Its promoter and secretary is a pushing business man, well known within and outside of the district, and connected with agriculture and trade; its directors are merchants, officials, members, etc. It is not and does not profess to be an Agricultural bank at all, but counts a number of the richer agriculturists or land-owners among its subscribers; it is far from being a ryots' bank in the sense usually intended by the words 'Agricultural bank.'

Management.—It has the usual staff of directors, scretary, auditors, appraisers, etc., and a paid establishment of about six clerks headed by a manager. Very large powers are given by the Articles to the president and secretary; for instance these two officers "shall "manage all the business of the company and do all things which they shall think fit for "carrying out its objects" under, of course, the general control of the board; it is the secretary who appoints all "representatives" and the establishment, and settles their pay, and these arrangements are binding on the company unless objected to by all the directors "unanimously"; the nomination of a director is made by the secretary but confirmed by the directors and general meeting; in applications for loans the president or secretary first notes his opinion and then circulates the papers to the directors.

Directors.—Each director must deposit at least Rs. 1,000, not withdrawable while in office, and must subscribe for at least five shares; he must be a person of some position living within the jurisdiction and with good knowledge of persons and property, and may not borrow from the Fund except in the form of simple loans (on the subscribed value of shares), or small lot loans. These rules seem excellent. Six are permanent a proviion of doubtful wisdom; the rest retire by rotation. It seems that three-eighths of the net profits, *i.e.*, the profits after paying all expenses, and setting aside the guaranteed interest, go to the directors and office-bearers, but the rules appear contradictory.

Members.—Any one may become a subscriber "without distinction of caste or creed", shares may be transferred, sold or withdrawn. There were recently 1,444 members holding 3,282 shares; of these 642 were held by officials, 872 by ryot land-holders, 581 by inamdars, 696 by merchants, and 491 by miscellaneous holder.

Funds—Share Capital.—The present nominal capital is Rs. 3,99,870 in 4,443 shares of Rs. 90 each payable in forty-five months at Rs. 2 per month; of these 3,282 have been taken up; the capital may be increased by special resolution. The resulting monthly income by bare subscriptions is Rs. 6,564 which can be at once lent out.

Deposits.—This Fund, however depends largely on its deposits, which it has of late years, attracted in a volume much exceeding that of other mofussil Funds; recently it had Rs. 95,000 in fifty-seven accounts. Only members may make deposits, and the minimum accepted is Rs. 25; the obligatory deposits of directors are Rs. 1,000 in each case. Members within the town have deposited one-third of the total; persons *outside* of the zone of loan operations about one-half. Five persons have deposited about Rs. 50,000 and get 7½ per cent. of their money, each deposit being above Rs. 5,000: twenty-two members have Rs. 37,000 paying 6 per cent, and thirty hold the remainder at 5 per cent. With these large deposits the Fund is able to grant loans readily and quickly. There is no *special* security for these deposits; confidence in the directors and in the safety of their investments, which, of course, are the ultimate security, are alone mentioned as the basis of these heavy deposits. That is insufficient as a permanent basis for security; so long as the directors deserve confidence, and show ability and discretion in investment, all is well, but there ought to be a material guarantee outside of the ordinary loan investments to ensure permanent confidence.

Terms of repayment of Deposits.—Deposits, if not on fixed term, are withdrawable at any time, and are repayable in order of priority of demand from the monthly collections, all other payments being stopped for the purpose. Directors may also return deposits on fifteen days' notice, and may reduce the rates of interest.

Reserve.—This is *nil;* there were once above Rs. 3,000 in reserve which the shareholders proposed to divide; the more prudent opposed this and eventually, by compromise, the amount was sunk in a handsome office building, which has cost nearly double the above. This is a valuable asset, but is not a reserve proper. Formerly, after setting aside the guaranteed profit, one-fourth of the remainder was credited to the reserve: this proportion is now reduced to one-thirty-second, an infinitesimal amount.

Loans.—The following table gives a clear view of the classes and of the interst charged on each class.

Four kinds of loans, viz., (1) simple, (2) permanent, (3) temporary, (4) small lot, are granted to the subscribers, and interest charged at the following rates as marked in the schedule below:—

Number.	Description of loans granted.	How repayable.	Percentage of loans granted.	Under what head.	Interest charged per month.	Remarks.
					Rs. A. P.	
1	Simple	Repaid in monthly instalments of Rs. 2 per every share.	95 per cent of the collections.	Simple	0 8 4	6¼ per cent per annum.
2	Permanent ..	Do.	85 per cent ..	(*a*) Jewels, etc. ..	0 8 4	Do.
		Do.	75 do. ..	(*b*) Land mortgage.	0 10 5	7$\frac{3}{16}$
		Do.	....	(*c*) Personal security.	0 12 6	9⅜
3	Temporary ..	Repayable in three months unless renewed.	85 per cent ..	Jewels mortgage, etc., below 500.	0 12 6	Do.
				Above 500 ..	0 10 5	7$\frac{13}{16}$
			75 Do. ..	Land mortgage..	0 14 7	10$\frac{1}{16}$
				Personal ..	1 0 8	12½
4	Small lot ..	Repayable in one month unless renewed.	....	For each lot of Rs. 10.	0 2 0	15

There is nothing peculiar in the rules as to loans; they are given in order of priority; loans on land mortgages are, in the case of non-Hindus, further secured by additional (personal) security. Mortgages are the favourite security in this Fund; out of Rs. 10,582, taken as ordinary interest in a given period, two-thirds were from mortgages, one-sixth from loans on personal security, one-ninth from small lot loans. At a recent date, Rs. 1,46,800 were due on mortgage, Rs. 30,346 on personal security, and Rs. 19,000 on temporary and small lot loans; these represented original loans of above 3 lakhs, the remainder having been liquidated. Penal interest in this Fund is pretty heavy; the rates are double and treble the ordinary rates according as the defaulter is a non-borrower or a borrower. Recently the total gross interest of all kinds in a given period was Rs. 12,952; of this Rs. 2,370 of 18 per cent. was penal; viewed in regard to net profits the importance of penal interest is well seen; the profit and loss account shows Rs. 14,299 on the credit side; of this Rs. 4,298 is debited to interest on shares including the counter-interest on repayment of loans, Rs. 4,300 as interest on deposits, and Rs. 1,701 as contingencies including establishment; the balance is Rs. 4,000, of which Rs. 2,370 or 59 per cent. are due to penal interest. Even if the interest on share is included in the net profit the proportion is 28 per cent. In a recent period of eight months 356 applications for loans were received; of these 263 were granted. The average loan was nearly Rs. 200. Now that deposits are considerable and subscriptions large, loans can be readily granted: when the fund was young, borrowers had often to wait for very many months, perhaps for years, before getting a loan. The 356 applications represent just one-fourth of the number (1,444) of members, so that about three-eighths borrow each year: many of the loans were, of course, temporary and small lot loans, which, though individually trifling and of short term, represent one-ninth of the total amount out on loan, and are therefore numerous.

Loans are, it is said, only granted after very careful enquiry. Searches in Registration offices are occasionally made at the borrowers' expense, but it is chiefly, almost solely, in the local knowledge of the directors that confidence is placed. It is one of the rules that every director shall be resident within the jurisdiction and be acquainted with the persons and proprietors with which the Fund may deal, and it is stated that their powers of enquiry, sources of information and local knowledge are so great that "all chance of deceit is utterly prevented": it seems that many of the directors have or had money dealings in their private capacity. It is quite clear that well-managed local societies are practically independent of the registration system.

As regards valuations, these are made by appraisers, and are checked by the directors and by the secretary; 75 per cent. of the approved value is granted.

The directors allege (1) that the overdue loans of only Rs. 2,000 are all well secured and fully recoverable; (2) that in eight years only nine persons have been sold up by decree of Court; that all these were in cases of house mortgage, and not in a single case has land been sold; (3) that in eight years only Rs. 61 have had to be written off as irrecoverable. This, if correct, is an extremely good record. The directors gave the opinion that the ryot borrowers are more honest than town borrowers—a very encouraging opinion and which tallies with other experience.

Profits.—According to the rules, after crediting subscribers with the guaranteed profit, the surplus profit is divided as follows: $\frac{1}{32}$ to the subscribers, $\frac{19}{32}$ to the reserve, $\frac{4}{32}$ to the directors, and $\frac{8}{32}$ to the office-bearers. Directors are paid in proportion to the number of meetings attended.

Other business.—This Fund provides by its rules an insurance and annuity branch, but no transactions have taken place up to date.

Agricultural Fund.—Affiliated to this Fund is an Agricultural bank. The peculiarity of this is that the rules provide for "stock shares," *i.e.*, foundation shares fully paid up: of these, 500 are provided at Rs. 100 each; 125 have been taken up, and the interest on them, which is guaranteed at $6\frac{1}{4}$ per cent., reached 12 per cent. this year. For the first forty-five months (fund period) the interest is only credited; it is expected in this way to make each share worth Rs. 150 by that time; after that period subsequent interest will be paid to the shareholders. It is a method of attracting deposits, which these shares resemble in being *withdrawable*. There are also the usual subscription shares. Deposits proper are Rs. 22,000 including nearly Rs. 6,000 on loan from the head office, for which $7\frac{1}{2}$ per cent. is paid. Loans are granted as follows: each Rs. 100 is to be paid back as Rs. 125 in five equal instalments at nine months' intervals; this includes the interest which is consequently about 12 per cent. per annum. If the borrower desires it, the bank will buy implements, etc., for him, but in that case he must pay instalments of Rs. 27 each or Rs. 135 in all, being interest at nearly 15 per cent. per annum. This method enables a ryot to pay by simple instalments instead of by monthly subscriptions, but the nine months' period is awkward since payment if due one year in a convenient season, say harvest, falls inconveniently in the next two or three years. The interest is by no means low considering that in the head office the ryot is so well spoken of.

This office is quite separate in accounts, managment, liability, etc., from the head office, although individual directors are the same.

The experiment is a new departure, and is one of the very rare cases in which the promoters of credit have endeavoured to suit the wants of ryots.

Supervision.—The directors would welcome Government supervision even of a stringent character, for they feel that it would engender confidence in the stability of the bank and thus develop business.

FUND (B).—This Fund is now about five years old, and has several hundred members and above 2,000 shares. It is situated in a small mofussil town, which has a good deal of external trade, while many of its inhabitants are agricultural. It is on the permanent principle, its full subscription term being forty-five months divided into five sub-terms of nine months each; each share is worth at maturity Rs. 50—6—3 (45 *plus* 5—6—3 guaranteed interest), *plus* any extra profits which may have been earned. Guaranteed interest is 1 pie per rupee per month, or $6\frac{1}{4}$ per cent. per annum, and the extra profit earned in the first full term was nearly half a pie (3 per cent.) additional. Its reserve is very weak, being only about Rs. 300; it is formed solely from a $\frac{1}{32}$ share of the net profits, *i.e.*, of the sum left after debiting the gross profits with the guaranteed interest, and all working expenses.

Members.—These are divided as follows: 19 per cent. are officials, 34 per cent, tradespeople, 27 per cent, agriculturists, and 20 per cent, professional (vakils, schoolsmasters, ets.).

Administration.—There are sixteen directors, all of whom must hold shares; no minimum number of shares is prescribed. These draw collectively one-eighth of the net profits—as described above—and this sum is distributed in proportion to the number of meetings attended by each director. From the directors are selected the eighth office-bearers, viz., president, secretary, assistant secretary, permanent auditor, two trustees and two appraisers; these eight draw $\frac{9}{32}$ of the net profits, the president and secretaries obtaining above one-half of this amount. During a recent sub-term of nine months, the directors and office-bearers drew the respectable sum of Rs. 1,020 in their official capacity.

The president has the usual powers at meetings and is also permitted to pass regular loans on pledge of valuables, as also all simple or small lot loans.

The secretary has very considerable powers, and it seems that it is he that disposes of the above classes of loans after obtaining the president's sanction, that is, he does all the preliminary work and passes the papers with his opinion to the president. Moreover, he issues the regular loans after the directors have passed them, priority being given according to the entries in a register. It is he who receives, registers and circulates applications for shares, loans and deposits; he records his opinion on the worth of securities tendered for loans, obtains the necessary valuations of property, secures the necesary documents, etc., before making payment of a loan, and, generally, manages all office work, including the ordering of payments.

The permanent auditor is one of the directors and receives $\frac{1}{16}$ of the net profits. His duties are continually to initial the various collection and cash accounts and registers, and to verify each month the jewels and securities in hand; his audit is thus a continuous audit. But the special auditor in a recent report severely comments on the then permanent auditor and tates that he did not even know the names of the several accounts which he was supposed to audit. This is but an additional instance of what is so frequently found, and which has, in a recent criminal case in a mofussil town, been so strikingly exemplified.

The trustees are also required to verify the cash balance, documents and other securities at least once a month; all valuables and valuable securiies are kept in an iron safe with four locks, of which the keys are kept by the president, sercetary, and the two trustees.

A special auditor, who is usually a skilled accountant from a Government office, is appointed for every sub-term of nine months.

Funds.—These are obtained from the monthly subscriptions to shares, from interest, and from deposits; the former need no descripion; their paid-up amount at a recent date was Rs. 65,000. Interest is described under 'Loans' Deposits were recently about Rs. 14,000 in less than ten deposit accounts; 6 per cent. interest is paid. They were attracted to meet the usual difficulty of Building societies, viz., to pay off a mass of matured shares which fell due at the end of the first period of forty-five months; the great bulk of the deposits belong to directors; a large part to a temple. Deposits are repayable at call provided that funds are available; it is said that a large portion is deposited on special agreement. Only two non-members have opened deposit accounts. There is no special security for the deposits, the reserve being only a trifle.

Loans.—These are of the usual classes, both regular, temporary and small lot; secured both by mortgages, pledge and personal security. The peculiarity of this Nidhi is that it objects to land mortgages; it has very few mortgages even of buildings, and apparently none at all on mere lands. House mortgages are only 10 out of 222 regular loans; none is found amongst the temporary loans. All these mortgages are at head-quarters and not outside of the town. Land mortgages are wholly avoided, though the country round is of very rich land, (1) because of the danger of prior encumbrances, (2) because of the danger of collusive sales for arrears of revenue since revenue sales clear off all prior incumbrances, (3) because of the difficulty of appraisement. These, at least, are the reasons given on enquiry. Nearly all loans are upon personal security, *i.e.*, upon the bond of the borrower with two approved sureties. Out of 222 regular loans, *i.e.*, loans repaid by the monthly subscriptions, 191 were of this latter class, 10 were mortgages and 21 were simple loans upon the paid-up value of shares.

Temporary loans are granted for three months, and are repayable in lump; there were only 11 of these, of which 9 were on personal security, and 2 upon that of shares. It is curious that not a single loan was granted, either regular or temporary or small lot, upon pledge of valuables. Small lot loans of Rs. 5 each repayable in sixty days, were twenty-eight in number; not more than Rs. 250 per month can be lent in this class.

Regular loans absorbed Rs. 45,000, temporary Rs. 2,275, and small lot Rs. 665 at a given date. The average regular loan was Rs. 203, and temporary Rs. 207.

Interest.—Guaranteed interest paid to members is $6\frac{1}{4}$ per cent. per annum (1 pie per rupee per month). That paid by borrowers is as follows: $1\frac{1}{4}$ pie per rupee per month ($7\frac{13}{16}$ per cent. per annum) on simple regular loans, and loans on valuables; $1\frac{1}{2}$ pies ($9\frac{3}{8}$ per cent. per annum) on regular mortgage loans, on regular loans on personal security, on temporary loans on pledge of valuables; $2\frac{1}{4}$ pies ($14\frac{1}{16}$ per cent.) on temporary loans on mortgage of immovables and on personal security, and 1 anna per month per lot of Rs. 5 (15 per cent.) for small lot loans. The regular loans are fairly moderate, but the others are somewhat high in their rates.

Penal Interest.—This is heavy; in the case of instalments of regular loans due on the 15th of each month, penal interest is charged at 2 pies per rupee from the 16th to the 25th, and 4 pies from the 25th onwards; the latter rate is 25 per cent. per annum. For temporary and small lot loans double rates are charged from date of arrear. As usual, this source of income is very material, and, in fact, equals the whole remuneration paid to the directors and office-bearers. The great bulk of loans is at $1\frac{1}{2}$ pies per month; this, on Rs. 45,000, is equal to Rs. 3,164 in a sub-term of nine months. Now in a recent sub-term the penal interest aggregated Rs. 1,010 or nearly one-third of the normal receipts; in other words the average interest paid was not $1\frac{1}{2}$ pies but 2 pies per month.

Overdue loans.—The amount of penal interest is a gauge of the punctuality of members, which is rather poor. On loans on 1,058 shares no less than Rs. 4,282 were overdue, of which no less than Rs. 1,490 was overdue on only 160 shares, *i.e.*, were about nine months in arrear, and Rs.896 on 57 shares, showing an average arrear period of sixteen months. Moreover, out of 11 temporary loans, due at the end of three months, there were no less than 6 in arrears, of which 4 were overdue for Rs. 1,000 for more than twelve months. Similarly 16 out of 28 small lot loans due in two months, were in arrears, 10 being above six months overdue. This is not a good state of affairs, and either the loans in arrears are not good assets, or arrears are being allowed negligently or for the sake of the penal interest. It is, however, possible that as 27 per cent. of the members are agriculturists, some of the loans having been used in agriculture are not repaid in time, partly because the monthly instalment system is unsuitable for ryots, partly because three-month loans are too short for such purposes. Temporary and small lot loans are granted to non-members; this may account for some of the arrears.

Purpose of loans.—Trade, agriculture, marriages and miscellaneous, in the order named. It is believed that the bulk of the loans is taken for trade by shopkeepers and small tradesmen and merchants.

Area of Operations.—Persons within the town and a radius of 5 miles have obtained $\frac{16}{20}$ of the loans and $\frac{15}{20}$ of the amount; the balance has been granted to persons beyond that limit. No mortgages are granted except at head-quarters.

Suits.—Only one suit, but that for a large amount, has yet been filed; it is still pending. The balance sheet shows only this amount as a past due loan; this is evidently erroneous; all overdue loans should be shown under this head, for they are doubtful assets and doubtbul in proportion to the period of their arrears.

Profits.—These have been declared for the first period at about 3 per cent. per annum in addition to the guaranteed interest of $6\frac{1}{4}$ per cent. Net profits are arrived at by deducting from gross profits (1) the guaranteed interest, (2) all working expenses other than remuneration to directors and office-holders, *e.g.*, pay of staff, rent, interest to depositors, taxes, and so on; the balance is net profit. Of this, $\frac{1}{32}$ goes to reserve, $\frac{4}{32}$ to directors, $\frac{9}{32}$ to office-bearers and $\frac{18}{32}$ to additional profit to members.

The question is, as usual, how are gross profits determined. Apparently the liabilities and assets are set down and totalled, and the balance is gross profit; this is a very rough method, and is liable to error by inclusion of doubtful assets as good ones, *e.g.*, overdue loans, and of accrued but unpaid interest as actual assets.

General.—The Fund seems to be useful and fairly prosperous, but there are improvements to be effected.

* Fund (C).—This is a purely rural Fund, started by intelligent and enterprising village officers and landholders in a village about 20 miles from taluk head-quarters, lying amongst hills and accessible only by a country road; not one of the directors knows English. The village has no trade and is solely agricultural ; its clientele is drawn from the village and its immediate neighbourhood.

It is on the terminating principle, its period being seven years; it lends freely on mortgage and on personal security, its knowledge of its members supplying all needful security: it does not consult the registration registers, nor is it troubled by questions of title, nor by objections from co-sharers or others; the village knowledge and local influence suffice to prevent fraud or false claims. Similarly it has not been troubled by litigation of any sort. It may be said to partake almost of a communal nature.

Its first period recently expired, and the books showed a profit of about Rs. 2,400, which was to be divided amongst directors and members; such share as the directors might then get would form their sole remuneration, as they had drawn nothing for their labour during the whole seven years. There appear to have been no losses, but the directors admitted some unpunctuality, and that the sums forming the profits had not been fully collected. But as there had been no loss, it is clear that the Fund had been of great benefit to all concerned, its loan rates being moderate.

* The full notes taken from the books of the Fund and from the lips of the directors, have been unfortunately lost during several transfers of appointment; hence only general remarks.

The directors had recently re-organized the Fund for a new period of seven years, but had yielded to the temptation of seeking larger profits by extending its business; instead of dealing only with members residing wihin the village or the immediate neighbourhood, it was admitting them from distant towns and villages even in other taluks, trusting to local directors and agents for the security of its loans. The result can hardly be doubtful; its directors, however capable locally, are hardly competent to conduct credit business which is scattered over the country side; unpunctuality and bad debts, loss and fraud are almost certain results. It is clearly a case where well-meaning and intelligent men are being misled by the desire for profits, and is a proof of the wisdom of the Raiffeisen principle of absolutely localized societies.*

† *Chit Associations.*—Further information has been recently obtained regarding the Chit associations mentioned at the beginning of this chapter. It appears that in the districts of Tinnevelly and Malabar there is now an immense extension of the system; it is becoming so universal that about one-fifth of all registered documents in Tinnevelly relate to these associations, which are not confined to men of one common locality, but are established by persons frequenting weekly markets, by groups of women, and the like. The matter is of great importance as showing not merely the necessity for organized, universal, and ready-to-hand facilities for saving, investment and credit, but also the great power of association possessed by the population, and the comparative confidence and honour existing among members, with, however, the evidence of growing distrust—partly because the associations may extend beyond village limits—as shown by the necessity found, in these days, of exacting real and registered security for the fulfilment of contract. It is most desirable to regulate these associations, at least by directing them into safe and systematic working, and above all things, so to develop them that they shall not become mere gambling speculations by groups of semi-detached units, but sound, helpful village or local associations, to which only co-villagers or residents within a given and moderate area shall be admitted so that mutual knowledge and confidence shall be the basis of operations, and, *ipso facto*, shall develop mutual trust and help.

The original system is said to be of immemorial antiquity, and is simply that described at the beginning of this chapter; it was called the ' head and tail system,' meaning apparently that the benefits extended equally in joint membership from the head—the early winners—to the tail—the less fortunate—who really lose considerably by the transaction in the loss of interest. The originating cause of the system is the necessity for providing on the one hand a mode of stimulating and investing savings, and on the other for obtaining lump sums for purchases of land and jewellery, for marriages, for a trading operation, for the settling of prior debts, etc. There were no Savings banks at the doors of the people, no Credit societies to grant them ready funds on safe conditions; hence the Mutual association, which, crude and rudimentary as it may be, involved the grand co-operative principle of mutual confidence.

The above system still prevails largely where subscriptions are small, *e.g.*, one rupee per month or week, and it will be seen that the first winner has the use of the pool for the whole period, while the last one has paid in his subscriptions for the whole period without benefit and at complete loss of interest till the last drawing; hence developments arose; it becomes necessary partly to equalize benefits, so that those who drew the pool last should not be really losers by their ill fortune. Hence in many associations each winner of the pool gets the amount less a deduction for interest, and this deduction is divided among such other subscribers as have not yet won the pool. This is called the discount system.

But though benefits are partly equalized or losses recouped by this method, there remains the difficulty that, under the drawing system, men who badly need the pool may have to wait for years before the lot falls to them; moreover the shrewder men perceived that out of the necessities of borrowers might proceed profits for the others. Hence the development of the ' auction-chit ' system, in which the drawing of lots is abolished, and the pool is auctioned to the bidder of the highest discount, the discount sum being divided amongst the other members as a bonus. It is stated that at the earlier instalment whencompetition is keen, persons will bid discounts of 60 to 65 per cent., so that they receive only 35 or 40 rupees while bound to repay Rs. 100. This is simply gross usury under the form of co-operation, and is precisely parallel at the Building society auctions in the West, where discounts of 35 or 40 per cent. may be bid. Moreover it is frequently found that these associations are formed by speculators who, for the trouble of initiating and managing the Fund, not only take their share as members, but the first pool, and sometimes also commissions; they are responsible for the collection of dues, and it is in their name that the members execute documents to the Fund. For, in the modern associations, a winner of the pool is required to give security for regular repayment through his periodical subscription

* Since the above was in print, information has been obtained exemplifying both the risks of dealing with non-members, and the class of business apt to be taken up by Nidhis for the sake of profit (see ' *Interest*,' pages 254 to 256 *supra*). In one town 100 small cause suits were taken without selection in consecutive order from the file of a District Munsif, tabulated, and the results forwarded by the courtesy of the District Munsif, for the purposes of this report Amongst those suits appear no less than 35 filed by Nidhis, and in 21 of these cases the interest claimed was 30 per cent. or upwards, rising in one case to 42 per cent. This was higher than the average of money-lenders' interest in the remaining suits, though several cases at 60 and 75 per cent. were found among the latter. The Nidhi loans appeared to be generally the small lot loans frequently granted to outsiders. The rate of interest was not only heavy, but seemingly above that provided by the rules; it is possible, however, that penal rates have been claimed in the suits as a matter of contract and not original rates.

Such business appears to be neither safe nor co-operative.

† The information in this paragraph is drawn from communications kindly contributed by the Registrars of Tinnevelly and Calicut.

before he receives the sum; this is usually by mortgage of real property, and is therefore registered.

It will be noticed that no interest is payable by members; its place, even in the modern associations, is taken by discounts, and it does not exist at all in the original forms. But penal interest for default is now found necessary; this may be 2 per cent. per month, but rises to 1 pie per rupee per day (180 per cent. per annum) or even to 2 per cent. per day.

The above remarks relate chiefly to Tinnevelly associations; those in Malabar are similar in principle and method; it seems, however, that in this latter district all associations are based on written contracts, not on mere oral agreements. The Manager (Kuri-muppan) seems to be held responsible for the due management of the concern and for proper collections; he is given considerable powers.

Besides the ordinary associations above mentioned there are other classes, *e.g.*, benefit funds, in which the association merely unites to subscribe a Fund for the benefit of a friend, who agrees to repay each member in turn as indicated by lot. Moreover associations are not confined to cash subscriptions, but may club commodities, *e.g.*, jaggery, paddy, cocoanuts, etc. These are pooled and the pool awarded as though money. Then there are 'Market (shandy)' association, in which small traders, etc., unite their small subscriptions on market day, the winner thus getting a small capital for trade. An abuse of the system was found to be creeping in in the form of 'lottery societies'; these were purely gambling concerns, in which one man gained and the others lost; they have been properly declared unlawful and prohibited; these, however, are absolutely distinct from the true Chit association, in which the lot is merely used to determine the sequence in which members take the pool.

Of Malabar it is said that associations are becoming universal; "in towns as well "as in rural parts, among the rich and the poor, among the landed aristocracy and the "agricultural labourers. It is very common among artisans. We can scarcely find an "artisan who is not a member of a kuri. Even Cherumars, who form the lowest agricul-"tural labourers, have some kuris among them."

The usual collections in small associations are weekly or monthly; in those where the periodical subscription of each member is from Rs. 20 to Rs. 100, the term is usually half-yearly. Sums of several thousand rupees form the pool half-yearly allotted in some of these associations.

It is said that these associations have materially cheapened money, partly by their competition with the money-lenders, but chiefly by their actual development of capital, *i.e.*, of productive wealth. A man who joins an association must, perforce, continue saving sums which he might formerly have wasted as being small and useless; presently he obtains the fruits of his savings in a lump sum; such a sum is too considerable, too attractive to spend idly, and he invests it in trade or in other associations; hence a comparative abundance of capital, the formation of which is due to the associations, and which competitively seeks investment.

There is much promise in these associations, which show the necessity for, and, in some degree, the results of, savings and credit institutions in absolute proximity to labour.

CHAPTER IV—LAW.

Preamble.—The following remarks refer almost entirely to the law relative to societies which exist or may arise in the mofussil of Madras, that is, outside of the original jurisdiction of the High Court. Within the Presidency town, company business, and banking in particular, is carried on in general, by a high class of business men, experts in their profession and presumably prudent and sound in trade; there is keen competition tending to careful method; publicity is a necessity, and thorough professional audit a possibility; there is a Chamber of Commerce, a watchful press, and critical public opinion; the clientéle is educated even in business matters; the law is more favourable in many ways, especially that of mortgage, while the judicial procedure is at its highest development. Hence, many of the suggestions intended to safeguard the operations, funds and members of mofussil banks and societies, are needless in the Presidency town, and would there be rightly regarded as unnecessary interference with the freedom of trade. But in the mofussil, conditions are exactly the reverse; the promoters and directors of banking societies are necessarily amateurs in that particular business, being frequently ordinary officials, pensioners, pleaders, &c.; there is no general atmosphere of business, and no competition; real publicity hardly exists, and audit is or may be of the weakest; there is no commercial body to assist and guide societies, no press to publish and criticize results, and to expose shortcomings; no public opinion to pillory offenders, and little public spirit to bring such to justice; social habits, family and general law, and the distance of the regular Courts, are all elements of difficulty in the mofussil. The recent (1893) notorious bank case in Northern India is a striking example of the difficulties and dangers both to mofussil banks and societies, and to the shareholders and depositors, while many other cases, some notorious, some only known locally and to express enquiries, display the need for extreme watchfulness over both the promotion and management, audit and supervision of societies; hence the proposals of this chapter for the amendment of the law for societies in the Madras mofussil.

Owing, moreover, to the ignorance amongst directors and shareholders of business habits and methods in this infant period of Indian mofussil companies, it is necessary to lay down the provisions for societies in the law itself, more strictly than is necessary elsewhere. Obviously necessary precautions and methods are wholly neglected from sheer ignorance of their existence, value or even meaning, *e.g.*, audit, reserve, &c.; and yet it

is in this country, where societies are in their infancy, that we have adopted—not even adapted—the English Companies Act, suited to a country where societies are in comparative maturity, an Act, moreover, found insufficient in its precautions, safeguards, limitations and provisions, even for England. Hence the present proposals go much further in positive legislative enactment than the English law; they propose as statute law what in England is the law of judicial decisions, and they impose provisions and restrictions as law which are in England left to the Articles, and consequently in some degree to the option of companies, though, as a rule, the safeguards now proposed to be made law are usually entered in the Articles of sound societies. But in no case has anything been proposed which is novel; every proposal is based either upon some English law, or decision, or Article, or—more usually—on some actual law of Europe or the United States of America, where it is found necessary, to provide safeguards by law which the English legislature has either not thought of or has considered unnecessary with the ideas of absolute commercial freedom and with the principle of *caveant socii*, which is too often a serious error even in England; it is the apathy, ignorance, folly of shareholders that are the cause, even in England, of much disaster.

Concrete illustration will make matters plain. The existing Madras 'Loan Funds' (Nidhis) are simply English Building societies, with certain developments, especially in the matter of pawnbroking, evolved by the facts and requirements of Indian society. Now these Building societies are based upon and governed by a special law in England, the ordinary company law being unsuitable. The original Act of 1836 was entirely altered by the present law (1874), and the present law is still found to require much modification wholly in the direction of stringency, more safeguards for the public and for the members, more supervision over formation and methods, is the universal demand. The registrar, who has a sort of supervision, declares in his report for 1890 that the springing up of these societies (by hundreds annually) has largely ceased to indicate a need or a want, their establishment has largely become a mere trade; in too many cases their operations are a mere gamble, while their members are often bound hand and foot by oppressive rules when once they have been ill-advised enough to join. The organ of the societies, which represents the best class, is not behind the registrar in its demands for more stringent provisions, and better supervision, and the press generally (the 'Spectator' in particular) is equally importunate. The result is three amending Bills of 1893, which have not yet been discussed; these embody many of the demands for reform. If this is the case in a country like England, is it likely to be less necessary in India. As a matter of fact, the very difficulties and evils found in England have been rife in Madras, and it is better to begin with a complete law rather than with one which would require perpetual tinkering.

It is further to be remembered that the societies which will be fostered, safeguarded, or guided by the proposed law will deal simply with small popular savings and credit. But it is a rule so universal as to be axiomatic, whether we look at the United States, at England or at the Continent of Europe, that the thrift, providence, and credit of the people, of the masses, shall be the special care of the State, and be assisted and fenced round with all sorts of safeguards supposed to be unnecessary in the case of ordinary trading societies or banks. This is obviously necessary, not merely because the fostering of popular thrift, prudence, and well considered credit are so essential to the welfare of a nation, but because the depositors and borrowers are poor and ignorant, and unable in case of fraud, or even under the ordinary circumstances of a society, to examine for themselves the condition of the society to which they trust; hence the anxious care with which the State surrounds popular thrift, prudence and credit in all countries; hence also the present proposals for a law for India based on the experience of other countries.

Where it is not advisable to lay down hard-and-fast provisions in the law, it should be provided that Government should have power to issue rules which should have the force of law; these would correspond to the "*Reglements*" which in European countries explain and develop the necessarily brief legal provisions.

Scope.—The law of societies in India is singularly meagre and imperfect. There are but two laws, viz., the Companies Act (1882) and Act XXI of 1860; this latter may be disregarded as applying only to literary, artistic, &c., societies. Practically the law of societies is the Indian Companies Act above.

This Act is little more than a transcript of the English Companies Act of 1862, *i.e.*, an Act to regulate joint stock commercial companies; an Act which was at once the outcome of and the directive authority for English joint stock practice; an Act which has required constant amendment and additions, and which is yet so imperfect in the light of European law and in practical working, that its complete amendment, especially in its protective provisions, has long been on the tapis. But even assuming it to be fairly suitable to the conditions of commerce, it does not stand alone as the law of societies; on the contrary, there are numerous laws for various classes of associations; such are the Building Societies Act, the Friendly Societies Act, the Industrial and Provident Societies Act, the Loan Societies Act, the Trustee Savings Banks Act, the Land Improvement Societies Act, and the Land Mortgage Debenture Act, &c.; nor are these laws mere unrepealed survivals; on the contrary, the three first-named are, respectively, of 1874, 1875 and 1876, that is long subsequent to 1862, the date of the main Companies Act, and there have been frequent additions up to the date of the new Trustees Savings Bank of 1891 and the new Industrial (Co-operative) Societies Act of 1893, while the recasting and development of other Acts, *e.g.*, the Building Societies Act, is still (1893) in hand. It is then recognized in England that the law of societies is not covered by the Companies Act. On the European continent the law of societies is much more highly and successfully developed; societies

are usually distinguished as civil and commercial, and the latter are governed by more or less scientific codes of commerce, with—usually—separate chapters for the various classes of society, always including a special chapter for Co-operative societies; in Germany, indeed, altogether irrespective of the several special Acts for special classes of societies, such as Land Credit, Savings, and Land Improvement Acts, there is a very lengthy and complete Act of 1889 for Co-operative societies; so also in Austria. In America the practice is not dissimilar; the several States have their own laws for corporations, with either special sections or special provisions, and even special laws for particular classes of society, such as the Building societies, which, in America, are now frequently and more properly called ' Co-operative banks.'

It seems to follow then that in India, so rapidly developing in the methods of the West, and so keenly in need of the organizations which have there been found successful, the laws found necessary in other countries, must be similarly developed. It may be argued that laws follow practice; that when society develops certain institutions, laws are made to suit the needs of those institutions, as was the case in the matter of Savings banks, Building societies, &c., in England, and Popular Credit banks in Germany, Italy and Austria; hence that India may wait till it be seen whether she will develop similar institutions, and, if so, of what kind. The argument is, however, invalid as regards India, and an echo of the opportunist method of legislation and administration. When society is evolving by its own inherent vitality, it may be that there is much to be said for this customary method; societies for savings or for credit amongst the poor were absolutely novel ideas, which had not occurred to practical legislators and statesmen, and had to be evolved in the brains of thinkers and brought slowly into organization by practical workers before law was possible. Hence such societies in Europe have preceded the law. But in India society is developing largely by external impulse and a communicated vitality; at all events, it is utilizing the administrative methods and social discoveries of the West and has all European experience for its guide; hence it is perfectly possible for legislation to precede institutions. For legislation is not merely authoritative, restrictive, or declaratory; its directive, educative, propulsive function is at least equally important; as Mill points out, it is an insufficiently used function of Government which should adopt more of the suggestive and inculcative method than has been generally customary.

However this may be, in the Madras Presidency at all events co-operative institutions are actual facts; not only are the indigenous ' Chit ' societies, elsewhere described, almost universal, but there are more than 100 registered Loan Funds (Nidhis) organized after the pattern of English and American Building societies, which are, in their proper development, purely co-operative, and these Loan Funds were, a few years ago, much more numerous, but have died out owing to the want of intelligent, expert, and honest direction, proper supervision, and suitable legislative guidance. Their history is largely one of failure, not from their intrinsic unsuitability, or from their being unnecessary; on the contrary, they sprang up to supply an obvious and notorious need, viz., that of cheap, mutual, organized credit and they are in some way, a development of the indigenous ' Chit ' associations; they largely failed because their promoters, though often honourable men, were equally often ignorant of the law of societies as it existed, of business and business habits in general, or of the particular methods of co-operative action; too often they were merely usury traps; numbers were simply bogus societies, invented, directed and exploited by one or two swindlers, who promised impossible benefits, paid them, at first, out of the subscriptions, and then bolted with the capital of their dupes. These failures and swindles have worked serious mischief in the destruction of confidence in the organization of credit, yet might have been almost wholly averted had there been a proper law for the governance of these and similar institutions, and for the organization of due checks and supervision over their promotion, foundation and working.

This is not all: the Companies Act is avowedly an Act for Trading societies of the joint stock pattern, that is for associations of capital with dividends as their object; whatever the benefits to society in general—and they are incalculable—by the development of the Joint Stock Trading society principle, the earning of promotion money for the promoters, of snug incomes for the directors, and of heavy dividends for the shareholders, are the primary objects of such societies. The object is perfectly legitimate, and even praiseworthy, but it is not the highest of objects; man does not live by bread alone, nor does the life of a nation consist in its material wealth, still less in the seeking for wealth, there is a higher plane of associated action, on which association is made the agent for developing the higher though possibly latent qualities of society and of its units, such as thrift, providence, temperance, self-control, and business habits, while to these are added the altruistic virtues of mutual aid and support, faithfulness and honesty, philanthropic * struggle and endeavour.

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* Not philanthropic in the sentimental sense of the word; on the contrary the co-operative method altogether excludes benevolent well-meaning charity whether grandmotherly or paternal; it utterly rejects charitable crutches whether of the individual or the State. State help, self-help, mutual help are three methods of progress, of which the first is the least desirable and least successful; the second is the nineteenth century virtue, so apt to develop into that system of competition scientifically labelled "the survival of the fittest," but more popularly as "the devil take that hindmost." The third is the co-operative method, of which the credit operations are so largely dealt with in this study as the probable method of the twentieth century.

Such is the object of the Savings banks, Friendly societies, Building and Credit societies Mutual Assurance societies, and Agricultural associations, &c., of the West; and to those who study their origin, history and operations, there is disclosed a perception of mutual aid in distress amongst millions of members, that gives a new view of social progress, a new hope for social possibilities. These societies, the product of philanthropic effort of the most practical character, have each their respective laws, varying according to country and nationality, but suggesting in each country the ideas and methods of social benefit by mutual help.

Now in India there is absolutely no such law, and the result is that the very societies which in the West are co-operative, in which the direction however skilled and management however laborious are largely *gratuitous*, in which dividends are less sought than mutual aid and friendly help *(cf.* the British Trustee Savings banks and Friendly societies, the American Building societies, the German Raiffeisen Credit Unions, the French 'Sociétés de sécours mutuel,' the Italian Popular banks and Wollemborg societies), are in Madras largely devoted to the development of profits and salaries for the Secretary (often the promoter) and the directors, to the cult of those high dividends (gros bénéfices) which Signor Luzzati designates as the great danger even in Europe for Co-operative societies.

As a matter of fact some, even of those societies which in this presidency started on purely co-operative principles, are visibly changing their character; the discussions, largely by investing members, turn upon "profits," and the increase of those profits, sometimes, it seems probable, to the detriment of the borrowers and to the endangering of the society's stability; the rules are altered so as to include outside lending on high interest; in other words risky business is undertaken for the sake of possible profits; directorships are posts of emolument and are the object of keen competition, not necessarily by the best class of men.

There is a further difficulty in this trading and competitive bent of what might be Friendly or Benefit societies, viz., that the establishment of Unions, so all important in this matter, is impossible. While societies are competitive and trading in nature, they will not dream of binding themselves together in a Union for common support and encouragement, as in the case of the American, German and Italian Co-operative banks, and even, the Co-operative societies of England; on the contrary, they will view one another with jealousy as rivals in the race for profits. When Benefit societies assume the character of the great English Friendly societies numbering their members by hundreds of thousands, this may be unnecessary; as a matter of fact in these cases the parent society takes the place of a Union, and the branches or lodges take support from it. But where, as in Europe, and as seems the probable future of Madras, societies are small, weak and isolated, it is absolutely essential that they should unite, so that support and supervision may be obtained from within. For this purpose, however societies must be co-operative and not competitive, and the law should therefore favour such societies.

The scramble for high dividends in Indian mofussil banking is, in fact, a fruitful cause of disaster; a young company starts business, and in order to attract deposits issues a high dividend at once; from this, however obtained,—and there are instances of its being declared from the provision for starting expenses—it is impossible to go back without causing distrust; hence deeper and deeper embarrassment, and the payment of dividends from capital, the exhaustion of the capital, and possibly the payment of dividends actually, as in a recent case, from deposits.

The legislature should at least suggest if not promote the co-operative idea; it should not provide a law of societies which deals *only* with Trading societies, and thus give a positive bent to the opinions and methods of societies, which but for the law would probably assume a different development, such as in fact characterizes them in other countries.

Similarly it will be observed that in India there is no law favouring thrift (Savings banks) except that establishing the Post Office Savings banks. The Indian system of Post Office Savings banks is little more than a copy of the British official exemplar, and there is nothing to hint at the possibility of any other than an official system. Yet the official system, while excellent in the matter of security, has grave social and economic defects as discussed. *s.v.* 'Savings banks.' Suffice it here to say, that the private or Trustee Savings bank system of England, America, Germany, Austria and Italy is wholly unknown in India though it would be productive of enormous advantages in stimulating both thrift and rural credit. For, if local Savings banks were formed and attracted local savings, it would be at once necessary to find investments for the savings deposits, and there can be no doubt, from the example of Germany, Italy and America, that local mortgage and other credit would be not only permissible, but advisable, up to a limit of 50 per cent. or so of the deposits. But for the establishment of such banks, a special law or special provisions in the law will be necessary.

In the following pages, therefore, the needs for widening the scope of the Indian Law of societies will, amongst other matters, be dealt with.

Apart however from this particular enlargement, other developments are necessary if the law of societies is to meet Madras needs for Land and Agricultural banks. Various safeguards must be added in the matter of the promotion, formation and working of the companies, especially in the matter of a genuine and thorough audit; special procedure seems necessary for the recovery of debts; the financing of the banks, especially by the issue of land mortgage and other debentures must be provided for; the law and possibly

the system of registration will require modification. It will also be suggested that many provisions now left to the discretion of the societies should be made compulsory by entry in the law, instead of in the Articles which, at present, may be of the loosest and vaguest character if schedule A is excluded from adoption. Moreover in all countries—whether those of general non-interference such as England and America, or those where trade is or has till lately been under certain restrictions unknown to England,—companies or associations of the classes now under discussion have invariably been closely regulated; indeed, not only is there a popular demand for closer restrictions and supervision *ab extra*, but the most recent legislation (1891 and 1893) of England is highly regulative and provides for very close external supervision, while that of America, also of the most recent, is, as concerns all Banking, Co-operative, Savings and Insurance companies, most careful in enforcing the most stringent supervision by Government officers. Where the object of societies is to touch the savings of the really poor, to popularize small credit, to democratize trade as by the establishment of small Co-operative or Mutual societies whether for credit or for other distributive needs, to affect the domestic welfare of the actual masses, as in the Benefit, Friendly or Building societies now so common, to popularize thrift and prudence by providing Savings banks, Insurance societies or others affording prospective benefits, to manipulate land whether in matters affecting tenure or in its improvement, it is an absolutely universal rule that special legislation, with special safeguards and limitations, should be resorted to. The law affecting the Land banks, Land Mortgage banks, the Landrenten, and Landeskultur-renten banks of Germany and Austria and the Credit Foncier of France, the laws for land mortgage and agricultural credit in Italy, the laws regarding Monts de Piéte and Positos in France, Italy, Spain and Portugal, the Savings banks laws of the whole world, the considerable and modern legislation on Co-operative, Friendly and other Benefit or Loan societies of England, America, Germany and Europe generally, the Land Acts of England and even the Land Mortgage Debenture Acts of the same country, the Banking and Assurance society legislation of the various American States, are all cases in point. Hence, for India, which, save for the companies law and that affecting the Presidency banks, is almost guileless of such legislation, which largely needs the development of certain classes of such societies, which, of all countries, requires certain restrictive safeguards and positive regulations both to guide and to stimulate their formation, and which nevertheless possesses few of those safeguards such as the stock exchange, the financial and the ordinary press, that in Europe, tend so strongly to keep company development and operations within legislative limits, there must be enactments similar to those which have been found useful and absolutely necessary even in more advanced countries.*

The following points in the development of the law will now be discussed:—

(1) Classes of society;
(2) Promotion and formation of societies;
(3) Articles of association;
(4) Capital;
(5) Dividends;
(6) Reserve;
(7) Property;
(8) Members;
(9) Management and Administration;
(10) Loans;
(11) Audit;
(12) Supervision (internal and external);
(13) Privileges;
(14) Registration of documents;
(15) Disputes;

The Classes of Society.—European law recognizes at least two classes of society not provided for by the Indian law, viz., societies " en commandite " and societies " with variable capital "; of these only the latter need be here considered. For the societies which are dealt with in this study may all assume the general form of joint stock companies limited by shares, with however—in the case of all Co-operative or Mutual societies—special rules to admit of a varying number and value of shares, and a varying amount of share capital. These societies are provided for in English and American law by the special laws relating to Benefit, Provident, Co-operative and Building societies; in Europe generally by special sections in the general Code of Commerce which—amongst other matters—includes the law of societies; in Germany and Austria by special and elaborate Acts framed for their management. The Indian law does not contemplate the existence of societies with varying capital under which form alone Mutual societies can exist; the Belgian commercio-legal description—it is not of course a definition—of a Co-operative society, is " one which has a varying capital, and of which the " shares are not transferable " (incessible). As the Indian law recognizes only societies under the Companies Act, and as such societies cannot reduce their capital, including that " paid up," without special and elaborate precautions, every Co-operative society in India acts illegally every time that it pays up a withdrawing member. Hence it is necessary to widen the law, so as to include, as in every

* Most of the suggestions of the following pages are compiled into a rough Draft Bill intended merely to epitomize the various suggestions.

other country in the world, Co-operative societies with varying capital as societies recognized by the law either as a class *per se*, or as a special form of the three classes already recognized. Of course the difficulty as to the reduction of capital only occurs when Co-operative societies are formed as companies limited by shares, there being no restrictions as to capital in the case of unlimited companies or those limited by guarantee (*see* ' capital ' and ' shares ' *infra*).

The word " limited " is, as regards companies limited by shares, restricted by sections 7 and 8 of the Indian Companies Act to cases where " the liability of the members is limited to the amount unpaid on their shares." In the United States and in parts of Europe it is, however common, especially in the banking laws, to widen the word, so that the liability extends to an *additional* sum never exceeding the nominal value of each member's shares; thus, if a member held a share of £100, of which half, £50, had been paid up, he would, as usual, be liable for the remaining £50 and, in addition to a further sum, which, according to the law of the particular State, might be from £5 to £100; *e.g.*, the general banking law of New York and of Rhode Island makes all stock-holders, unless specially exempted by charter, liable " to the amount of the par value of the shares held by them *in addition* to the amount invested in such shares " after the corporate property has been exhausted; in Illinois including Chicago, the new law of 1887 has a provision similar to that of New York; so also in Kansas and Arkansas; in South Carolina the addition is only 5 per cent.; in California the shareholders of all societies are liable as in New York. The National Banking Act has similar provisions. In Europe, Austria, Switzerland and Belgium admit a similar liability; *e.g.*, in certain Swiss banks (limited) the liability of the shareholders extends to twice the amount of their shares; in Austria the law, at all events for Co-operative Loan societies, requires a similar liability. The principle is evidently adopted with a view of ensuring a larger guarantee, greater stability, and very careful management by the shareholders. The methods is worth adopting into Indian law. Possibly section 9 referring to companies " limited by guarantee " will cover the case, but the wording of section 9 (*d*) and forms B and C, schedule II, seem to require that a particular amount should be specified irrespective of the shares held, if any, whereas by the method proposed, every member is liable for the full value of his shares and for an additional amount proportionate to such shares; hence creditors have the benefit of a very wide guarantee for their loans.

Promotions and Formation of Societies.—The English law of companies from which the Indian law is almost copied, is frequently under amendment; the latest actual addition is that of 1890, which is an Act to increase the liability of directors and promoters, one remarkable provision—apparently following the general law of 1884, and the Swiss law (section 715)—being that the onus is now thrown on such persons to prove *bona fides* in case of loss to shareholders by reason of an incorrect prospectus. A plaintiff under this Act does not need to prove fraud; he can claim and obtain compensation for damage by any untrue statement in the prospectus, unless the directors or promoters prove, not only that they believed the prospectus to be true, but that they had reasonable grounds for their belief. This is the latest of the provisions intended to protect the public from the frauds attending the reckless foundation of societies, as has been notably the case in England, and was also in Germany subsequent to 1870.

From 1862 to 1890 societies in England were registered under the Companies Act with a nominal capital of £3,970,000,000. but on the 30th April 1890 the paid-up capital of the existing societies was only £775,000,000; allowing for all mere registrations, without further operation, for the difference between nominal and paid-up capital, &c., this shows very reckless initiative. " Hundreds of millions sterling " have been wasted—to use a mild term—in England alone by the ignorance, recklessness or fraud of promoters, and the Act of 1890 is only one instalment of a series of public demands for precautions which shall tend to ensure careful foundation and sound business.

But it is not merely from fraud and recklessness, but from ignorance that so much danger arises; the state of many Friendly and Building societies, even with special laws, has led to much difficulty of late years; it is declared that numerous Benefit societies are unsound and wholly unable to provide the benefits for which their subscribers pay, having been started empirically by philanthropic but ignorant men. As for the Building societies, a Parliamentary return of 6th April 1893 shows that 1,237 such societies have been founded and ceased to exist since 1874 in England alone, of which 406 have simply disappeared as abortive or failed, irrespective of regularly wound-up societies, and it is asserted by those best informed, such as the Registrar of Friendly, &c., societies, that Building societies are frequently formed without any real demand for their operation, and merely as speculative or gambling concerns or for the profit of their promoters. The result of these failures and misuse of their methods is a popular demand for greater precautions in the starting of such societies.

In this presidency precaution is not less requisite; the chapter on ' Madras Nidhis ' (Mutual societies) shows that the success of a few and their apparent ability to fill a growing need brought about a " boom " in these societies from the years 1883 to 1888, during which time hundreds of societies were started, but hardly passed the starting stage. Many of these were failures from the beginning and failed from utter want of the knowledge necessary for success. Worse still, a large number are said to have been deliberately fraudelent;

impossible benefits—such as 2 rupees for every rupee of subscriptions—being promised and temporarily granted till the subscriptions were considerable, when the Fund, worked perhaps by a single swindler with a few men of straw, closed its doors; many of them, it is believed, were never registered at all, owing to a defective knowledge of company law by the shareholders. The result has been a marked distrust of such Funds in the several districts where they were most prevalent.

One remedy is in legislation which shall insist on a proper statement of the circumstances attending the formation of a society. Where the clientéle of a proposed society is conservative and suspicious of novel methods, and yet so ignorant and so necessitous that they will readily accept impossible terms, it behoves the law to adopt preventive measures that the chances of genuine societies may not be endangered. In Germany, Austria, Italy and Switzerland the Commercial Court or the Register-richter examines the circumstances of each proposed society to see if it fulfils the conditions of the law. In Germany, especially, where the supervision of joint stock companies was loudly demanded owing to the bubble period which succeeded 1870, the formation of companies is very carefully provided for in the new Code of 1884. The promoters and the inchoate company are considered rather as having opposed interests before formation, and the law therefore safeguards the public who are to form the company by insisting on complete publicity of all the circumstances attending the proposals for formation.

It may be well to give a brief sketch of the provisions of the German and Italian Codes of Commerce (1884 and 1883 respectively) regarding the formation of companies.

In Germany the promoters of a company are all those who have drawn up the Articles of association, or who have contributed capital otherwise than in cash subscriptions for shares. These promoters are considered as having interests in a certain way opposed to that of the general body; they desire to obtain as large a price for their promotion or concessions, and to retain as large a share of the profits as possible. Hence their dealings with the proposed company are carefully investigated, and must be laid absolutely open. The deed of association must therefore, on pain of nullity, contain every contract to be entered into by the promoters with the company and all the advantages secured to them the price paid for these concessions, &c. The notice for the subscription of shares must contain, on pain of nullity, the date of the deed of association, which must thus be drawn up in advance, the object of the enterprise, any special advantages secured to shareholders, the amount of the different classes of shares, the name, address and profession of the promoters, the amount of the nominal capital, and the proportion to be paid up not being less than one-fourth. Any matter reserved, which should have been entered, is of no validity as against the shareholders. When the promoters or the public have taken up all the shares, the company may proceed to incorporation; there must be a board of directors and a council of supervision; to these bodies the promoters must submit their report reciting all the circumstances attending the formation of the company, together with original accounts, the deed of association, &c.; these documents are then examined by the directors and council; if any promoter is on either of these bodies, there must be a special further examination by revisors appointed by the local chamber of commerce, or if there is none, by the directors and council together. These bodies and the revisors, if any, must draw up a written report certifying to the correctness of the promoters' statements, and to the genuineness of the company and its objects. These reports with a copy of the deed and Articles of association, of every contract entered into preliminary to the enterprise, the declarations of the promoters, a statement of the expenses of foundation, and the persons who have received or are to receive such sums, a list of shareholders and shares taken by each with proof that the whole capital has been subscribed and 25 per cent paid up, the documents appointing the directors and all others necessary to explain the formation of the company, must be forwarded to the Commercial Court having jurisdiction with a request for registration of the company. Thereupon, if the promoters have not themselves subscribed all the shares, the Commercial Court at once calls a general meeting of all shareholders to finally decide whether the company should be established. At this meeting the Judge of the Court presides in the interests of the shareholders as against those of the promoters. The duty of the Judge (Register-richter) is not to decide whether the enterprise is sound, but whether the law has been duly observed. At the meeting the directors and committee of supervision make their report upon the enterprise; the vote of one-fourth of the shareholders holding one-fourth of the capital is necessary for the establishment of the company.

The Register-richter then proceeds to register the company, but mustfirst satisfy himself that the Articles are legal and that the entire capital has been subscribed and one-fourth paid up, failing which he refuses registration. If correct he registers the deed and Articles of association, and deposits the other documents in the record-room; an abstract of the deed is also published.

The responsibility of the promoters does not end here; if any false statement or misrepresentation has been made by them, they are responsible for all damages, and the onus is thrown on them of proving that they were unaware that the representations were false or incorect; in case of an incorrect statement by promoters the law assumes their culpability till they prove their innocence, and that they have acted as good business men throughout. This is exactly parallel with the recent (1890) English law regarding promoters and directors. The liability, except presumably in case of actual fraud, ceases after three years if a general meeting absolves them, but no such resolution can be passed if shareholders holding one-fifth of the capital object. After five years no claims can be

made against promoters. Directors and the committee of supervision are similarly responsible, secondarily to the promoters, if their reports on which the company was established were erroneous, misleading or false. In addition to the civil remedy for damages, special penalties of imprisonment and fine are provided.

Such is in abstract of the new German Commercial Law on the promotion and foundation of companies; similar provisions have been claimed as necessary in England, and some have already been adopted, while there is a general feeling both in England and in India that more legal attention must be given to these points.

In Belgium a special amending law was passed in 1886 in order to circumvent the frauds practised by the promoters of companies.

In Italy the Commercial Code of 1883, though not so complete as that of Germany, is full of precautions, intended to ensure that companies shall be genuine concerns, solidly based, likely to succeed, and not mere traps to catch public money. The deed of association must be drawn up by a notary public who, within fifteen days, must deposit the document and the Articles of association in the Civil Court having jurisdiction, or in the Commercial Court, if the Company is unlimited or " en commandite." The Court then verifies the legality of the previous proceedings, and if, after consultation with the Government pleader, it is satisfied, orders the registration and publication of the deed and Articles; publication is by posting the documents in the Court-room, in the Municipal office, and on the notice board of the nearest exchange. An abstract must also be published in the journal of law notices, and the full text in the official bulletin of share companies. The deed of association must give full information of any privileges or rights conceded to promoters, and the value of the contributions otherwise than by cash subscription for shares; promoters may not reserve for themselves a premium taken before profits are divided, or in the shape of paid-up shares, but they may reserve for themselves a proportion of the declared profits not exceeding one-tenth, for a term of years not exceeding five. If the company is started by public subscription a full prospectus must be issued containing the chief clauses, or an abstract of the deed of association, the share of profits to be retained by the promoters, &c.; this must be deposited in the Commercial Court. Subscription lists must contain a copy of the prospectus or of the Articles, and give full details, address, number of shares, &c., for each subscriber, and a declaration required by him that he understands and accepts the prospectus or Articles. All subscriptions must also be authenticated by a notary. Before a company (other than co-operative) can be formed, the capital must be subscribed in full, and at least three-tenths paid up; in the case of insurance companies one-tenth only must be paid up; subscription and payment must be followed by a general meeting which have the usual duties and powers of first meetings, but is not in any way supervised by a public officer.

In India an addition to the Companies Acts of 1882 and 1887 should be passed in terms of the English Directors Liability law of 1890, and the Commissioner of societies (to be described below) who should by law have powers similar to those of the English Registrar of Friendly, &c., societies, or the Commissioner of Savings banks or public Auditors of America, or the Commercial Court of Europe, should satisfy himself, not indeed that the society is likely to be a success, but that it is a genuine *bona fide* society intended to fill an actual need. It ought not to be possible for purely bogus or at least ignorantly and recklessly started companies to establish themselves at pleasure, and to vanish as readily as they originated. The universal European (Continental) rule (*see* ' Directors ') that the directors—provisional or permanent—and promoters should hold at least a certain number of shares, which should be inalienable during office, would also tend to ensure the genuineness of an undertaking. For other protective regulations *see* ' Directors,' ' Reserve,' ' Inspection,' ' Audit,' ' Supervision,' ' Registrar,' &c.

The Articles of Association.—At present the law provides (section 37) that a society *may* adopt any or all of the provisions of schedule A (model Articles), and section 38 makes these obligatory on a company limited by shares unless they are excluded or modified by Articles accompanying the memorandum. Hence it follows that a company limited by shares may adopt wholly useless, defective and impracticable Articles, if a section is entered, as is frequently the case, excluding schedule A. While liberty should be accorded to societies, it is not advisable, especially in the case of the classes of societies proposed to be encouraged, to permit them to operate without proper regulations for business and for the protection of their members. The Articles of many societies that have been formed are singularly imperfect and unsuitable; in many cases they have been adopted without the slightest knowledge of their true signification and extent; the very meaning of the word " limited " is often misundersood; the provisions for audit are defective and even useless; the conditions for loans often read more like the contracts of a usury shop. If societies for popularizing credit are to have privileges, their Articles must be precise and complete, and should duly provide for the protection of members and creditors. Certain items in the Articles should be compulsory, notably those for audit, reserve, appeals to the registrar, the duties of directors, the methods of administration and good management, the investment of the funds, the receipt of deposits and the borrowing of money.

In European law certain matters must, of necessity, be dealt with in the Articles; *e.g.*, in the German law for Co-operative societies (1889) the following subjects are compulsory; the name, locale, object and duration of the society and its business year; the liability of its members, its capital, value of each share, and the minimum amount to be eventually paid up on each share, not being less than one-tenth of its nominal value;

rules for the publication in the press of the society's transactions, for the preparation and verification of the annual balance sheet; for the formation of a permanent reserve; for the domiciling (technically) of each member within its circle of operations; for the extension of operations to non-members except in the case of Loan societies in which case it is forbidden; for the entry, withdrawal and exclusion of members; for the conduct of general meetings, and the majority required for special resolutions. Since, moreover, a directorate, council of supervision, and auditors are compulsory by law, the statutes must necessarily contain full rules on these subjects, which are expressly added as necessary entries in the Articles of all societies by the Italian Code of Commerce, together with a complete statement of all the benefits and rights especially conceded to promoters. In Switzerland it is obligatory to state the number of shares which directors are obliged to hold. Doubtless Madras societies do generally deal with such subjects, but not of necessity, and their Articles are often defective and unsuitable; this should now be remedied. It will be advisable also to draw up model Articles modified to suit the several classes of society (Land banks, Co-operative, Credit and other societies, Savings banks, &c.), and to make them or modifications of them compulsory, certain items being obligatory as above indicated.

Capital.—As mentioned above, the societies which have withdrawable capital have been omitted from Indian law; the limited societies contemplated are those with fixed but transferable credit; those forgotten are the societies with capital restrictedly transferable, but always withdrawable and therefore variable. The capital and shares of a joint stock company are subscribed for either as a working capital or as a guarantee for borrowing; in Co-operative societies the subscription of capital, while serving these two purposes, has in view, at least in certain classes, the enforcement of thrift or the repayment of advances by continuous subscription. The capital of a joint stock company is a fixed amount which cannot ordinarily be reduced or repaid till the company is wound up; that of a Co-operative society is *normally* reducible not merely by the withdrawal of members, but by the maturing of the shares, where, as in Building societies, repayment is the expected and intended result of subscription. The nominal capital of a company is a fixed amount, of which the paid-up capital is a definite proportion varying only—in general—according to successive calls; that of a Co-operative society has a fixed nominal maximum, of which the paid-up capital is a proportion which varies, by increase and decrease, from day to day. It is obvious that this class of societies, the importance of which is daily increasing, even in India, must be legally recognized.

In Europe and in America the capital of Banking Co-operative societies is often fixed by law; in France the maximum capital of a Co-operative society is £8,000, which may however be increased by successive annual votes of a general meeting, and in several of the United States it is £200,000 for Co-operative banks. The maximum is intended to prevent these societies from being exploited by capitalists and speculators. On the other hand, many States, *e.g.*, Massachusetts and Illinois (1887), prescribe a minimum for the capital of ordinary Banking societies, with a view to give them a solid basis; so also the federal law of the United States of America regarding National banks prescribes minima varying according to the population of the locale of the banks. It does not however, seem in general necessary to fix any maximum or minimum in India for either ordinary or Co-operative Credit societies; the great Benefit societies of England are, in fact, instances of the inadvisability of fixing a maximum, as they work with much advantage and credit.

It is a question whether there should not be a provision in the law that a society which has lost a certain proportion of its capital shall not necessarily be wound up. By the Belgian law the directors of an ordinary Joint Sock society, which has lost half of its registered capital, must submit the question of dissolution to a general meeting; in France a loss of three-quarters brings the same obligation, and even in Co-operative societies the capital must not be reduced by withdraws below one-tenth; in Italy when ordinary companies lose one-third, the directors must call a general meeting, which must decide whether to dissolve the company, or to make up the deficiency, or to limit the capital to the reduced amount; if the loss is two-thirds, dissolution is *de jure* unless a general meeting agrees to make up the loss, or to trade on the reduced capital. There are similar provisions in the United States of America; *e.g.*, in the National Banking Act, in the General Banking law (1892) of New York, in that of the State of Illinois, &c., any impairment or falling below the legal minimum must be replaced, or the society wound up upon the motion and initiative of the Comptroller of Currency, the Superintendent of Banks or the Public Auditor respectively. There is no such provision in the Indian law, but it seems called for in the interests of investors and of the stability of companies; the worst failures are those where a society has endeavoured to hide losses, with generally a ruinous result, as has recently happened (1893) in Northern India. It is true that the Articles of some companies provide this rule, but it is purely optional; it should now be made obligatory by legal enactment, and very severe penalties provided for any breach of the rule by directors, and for any concealment of the fact by auditors or other supervisors.

There is nothing in the Indian law to ensure that companies shall start on a solid basis of capital; in all European States and in America, the whole capital must in general be subscribed, and a proportion, usually one-fourth or three-tenths, paid up before incorporation is granted; in the United States the capital of a banking corporation must usually be paid up in full before operations commence, or before it is allowed free course,

e.g., in Rhode Island State three commissioners appointed by the Government, but paid by the bank, superintend operations until the capital is fully paid up; in the National banks half must be paid up before beginning business, and the balance by monthly instalments of 10 per cent. Similar and even more stringent provisions are found in other States, *e.g.*, the new law of 1887, for Illinois (Chicago) requires that every banking company shall have a capital of at least £5,000 in small towns and of £10,000 in towns of above 10,000 inhabitants: this must be wholly subscribed before a meeting can be convened and wholly paid up before business can be commenced. The object of course is to provide a solid basis of capital, to ensure that the company is not bogus, a mere speculation of from one to seven impecunious men who are anxious to obtain unlimited funds from others by the mere use of the magic word "company" or "bank." But unless it is further provided that the capital or a portion of it shall at once be invested in Government or other first-class securities, which shall not be alienable or even borrowed upon unless by special resolution of the directors and then only temporarily and upon emergency, the subscription in full of the caiptal is dangerous as depriving creditors of the security of the uncalled capital. Recent instances in India itself show that a capital fully paid up may entirely vanish by losses, or reckless lending, and that the nominal existence of a large paid-up capital was therefore positively misleading to the public. If there is to be a substantial capital, it should be only partly paid up, or if fully paid up. it should be at least partly invested in inalienable first-class securities, repeatedly verified not merely by the directors, but by the auditors and suprevising agencies hereafter mentioned. Directors should also hold a certain number of inalienable shares, stamped with a seal to that effect and deposited in the bank's safe. In the United States it does not appear that any provision is made for the investment of paid up caiptal, but its place is taken by the common provision that shareholders shall be liable for an amount in *addition* to the value of their shares, varying from 5 per cent. additional in South Carolina to 100 per cent. additional in New York, Rhode Island, Illinois, Colorado, Kanasas, &c.

Of course this provision is needless in the case of Co-operative societies, which are expected to begin in a small way and gradually to increase the number of their members and with them the share capital.

Regarding shares, it may be advisable to limit the interest held by any one shareholder; the Italian Code of Commerce provides that no member of a Co-operative society shall hold shares beyond £200 in value, each share not exceeding £4, a provision exactly similar to that of the English Industrial and Provident (Co-operative) Act, (1876). In Germany no member of a Co-operative society may subscribe for more than one share until he has fully paid up his first share, and so on. The laws of Massachusetts and other States provide that no person shall directly or indirectly possess more than one-half the capital stock of a Banking society. The object of the European provisions is to prevent departure from the co-operative and democratic idea, to restrict the societies to the classes for whom co-operation is specially intended, to prevent a few money-lenders from so uniting in a sham Co-operative society as to fleece the unwary and ignorant under the guise and with the privileges of such a society, and to prevent a few persons from obtaining a controlling influence in genuine societies and abusing such influence for personal gain; the American restriction is intended to prevent abuses of which the following is an example; a director of a small bank bought out eleven other directors at £300 each, and from the caiptal and deposits of the bank loaned himself £150,000. The history of the U.S.A. National banks that have failed, as entered in the Comptroller's Reports for 1889-91, shows that in most cases failure was due either to negligence or directors or to a controlling power obtained by the bank president, ando thers over the use of the funds. The precaution is not needless even in Madras, to prevent a few capitalists from setting up a usury shop under the guise of a Co-operative bank, or to prevent the abuses detailed in the chapter on 'Madras Nidhis.' For certain privileges in the transmission of shares and interest in a society *see* below *s.v.* 'Privileges.'

Borrowed Capital.—This may be considered under the head of 'Deposits' and 'Debentures.' The first question is whether, for any of the societies under consideration, a legal limit should be fixed for indebtedness. The Indian Companies Act fixes no limit, nor does the English Act, but in England the Stock Exchange requires ordinary borrowing to be restricted without the sanction of a general meeting, to an amount which must not be excessive as compared with the share capital, and will seldom be allowed to exceed one-half of the subscribed capital. In India there is no Stock Exchange, and it is more necessary than in England that some limit should be fixed, at least for particular classes of companies and in the mofussil.

In the ordinary laws, whether of Europe or America, there do not appear to be any limits placed upon borrowing, or any proportion fixed between capital (with reserve) and the amount owed to third parties except on debentures, though a limit is usually provided by the Articles of a company. Some of the Swiss banks, for instance, though not Savings banks proper, have deposits more than one hundred times as great as their share capital, and fifty times that of capital and reserve together. As regards land mortgage debentures it is usual to fix a limit of from five to twenty times the amount of the share capital; this is specially the case in the German Joint Stock Mortgage banks; so also in Italy. In Belgium ordinary debentures must not exceed the paid-up capital. In the English and American laws relating to Building societies, of which the Madras Loan funds are chiefly copies, very strict limits are given; the English Act only allows indebtedness of all kinds (deposits, loans, &c.) up totwo-thirds of the amount secured

for the time being by mortgages from its members in the case of a permanent Building society, and the same amount or a sum not exceeding twelve months' subscriptions on the shares in a terminating society; in America (New York) the amount is limited to one-tenth or one-fifth of its paid-up capltal and for terms not exceeding one year, or (Pennsylvania) up to one-half of the subscribed capital.

Deposits.—The danger from deposits is twofold: (1) that when repayable at call they may endanger or even ruin the society if its assets are not sufficiently liquid to allow of immediate repayment of the deposits; (2) that when abundant they may lead the society into ill-secured and perhaps speculative investments in order to make a profit. A third danger arises for Co-operative societies, viz., that they insensibly tend, if successful in attracting large deposits, to become ordinary banks, and to lose sight of the mutual idea with which they were founded; they begin to run after dividends and seek the profit of investing rather than of borrowing members; there have been very notorious instances of these dangers in very recent years, especially among the English Building societies, and in the case of some German Co-operative Credit societies. Unless, therefore, these dangers can be obviated, a rule providing for the limitation of deposits should be legally promulgated. It may be a breach of commercial freedom, but such freedom is not an axiomatic necessity, but merely a modern practice, and while large banks and societies may be left to their own skilled guidance (by no means, in the light of recent experience an infallible guide), the Small Credit and Benefit societies which are springing up and will hereafter immensely increase in number, cannot all at once be left to themselves. Either the law, or provisions in legally compulsory Articles, should fix a limit of indebtedness as in the English and American Co-operative banks called Building societies.

On the other hand deposits and loans are absolute necessities if Credit societies are to be really useful; both to provide sources of credit for their members and as methods of encouraging thrift and the useful accumulation of now useless driblets of capital, deposits must be encouraged.

In the Crédit Foncier the Articles provide that the capital shall not exceed £8,000,000 and that the deposits shall not exceed £4,000,000. The actual capital in 1890 was £6,820,000, and deposits were £3,125,000. By the Articles one-fourth at least of the deposits must be placed at interest in the Government treasury, and the remainder must be invested in Government paper, or in loans for terms not exceeding ninety days on good security.

In the National banks of America the actual deposits are to capital and reserve as $2\frac{1}{3}$ to 1: in the German Co-operative Credit banks with unlimited liability and with an own capital arising and gradually increasing from the monthly subscriptions of the members (Schulze-Delitzsch) as 3 to 1; in the Italian Popular banks with limited liability and ordinary share capital as guarantee, but with extremely good management and very great consequent credit, as 4 to 1. It might be advisable to limit deposits in local Credit societies in Madras, outside of the Presidency town, to twice or thrice the amount of their paid-up capital and reserve. This suggestion is based upon actual European practice, but tallies with a suggestion made by Mr. A. J. Wilson in his work on 'Banking Reform.'

In the National banks of the United States 15 per cent. of the aggregate value of bank notes and deposits must be held in reserve in lawful money of the United States, in order to meet the calls for repayment; for the first few years till experience is gained, it would be well to provide that in local Credit societies in the mofussil, not less than 10 per cent. of the deposits payable at call should be held in Government paper or other securities approved by Government, and $2\frac{1}{2}$ to 5 per cent. in currency notes or cash. It should also be provided that the Artieles should of necessity contain rules regarding repayment of deposits, requiring notice on a sliding scale rising according to amount; this is the Italian plan and the English Building Society Act of 1894 provides that no society shall accept any loan or deposit except on the condition that not less than one month's notice may be required before repayment or withdrawal. This provision is the result of a strong demand for some such safeguard to avoid the insensate and ruinous rushes which have frequently and recently endangered or ruined societies in which the deposits were locked up in mortgages.

On the other hand, the interests of depositors must be equally safeguarded to prevent the scandals of recent years and the wide distrust which such cause. The law should provide as proposed for debenture-holders, for the representation of the depositors at General meetings, *e.g.*, by a public officer without the power of vote, and for the appointment of a separate auditor to represent their interests, who shall work with the bank's own auditors and have similar powers; also that a certain number of the depositors should be able to obtain, upon reasonable demand, an inspection of the bank's affairs by a Government or Union Inspecting officer.

Debentures.—It seems necessary to regulate by law the issue of debentures, at least of the class known as 'obligations foncières,' 'Pfandbriefe,' 'cartelle agrarie' or 'buoni 'di tesoro dell agricoltura,' which are somewhat similar to those dealt with in the English Land Mortgage Debenture Acts of 1865 and 1870. There is absolutely nothing to legalize the issue of such debentures in India, yet, if Land banks are to be started, their capital should largely depend upon loaned capital of this class. These debentures have been described in full *s.v.* 'Land-Mortgage Debentures' (*see* chapters on 'Land Banks in Europe'); it remains merely to suggest the provisions for legalizing them in this

country. The ordinary commercial debenture is simply a mortgage of a company's "property and undertaking," and is issued in India under the laws relating to mortgages. There is in England much present discussion as to the issue of this class of debenture, said to have been "gravely abused," since, on the one hand, companies which have issued debentures enter into other engagements with persons ignorant of such issue, while, on the other, debentures are issued which are not mortgages at all, and are not specifically and preferentially secured. As regards the first difficulty, the only provision in the Companies Act is that requiring the entry of such debentures in a register kept by the company, but this register is not open to public inspection, and cannot therefore protect the public, and one ofthe suggested reforms is an extension of the law to provide that a copy of this register shall be sent to the Joint Stock Companies Registry office to be there open to public inspection under certain conditions. The second difficulty could be got over by simply refusing the name "debenture" to any document that does not on its face, give a specific charge on the company's property.

But the land mortgage debenture is totally different; it is a special security based upon, and absolutely secured, by (1) the mass of mortgages held by a company, (2) its guarantee capital, (3) its general credit. In no country is it permitted to issue thes securities without the most stringent precautions. In England the company must be one devoted solely to the advancing of money on the security of land, including rates, assessments, dues and charges upon lands and real property, exclusive of mines, factories, mills, &c.; it must have considerable capital, only partly paid up; all mortgages on which debentures are to be founded must be registered and deposited in a public Land Registry office, together with a valuation certificate, and a form showing the nature of the company's interest in the security; on these registered documents the society may issue debentures, the total of which must never exceed in value the total securities held by the company, nor ten times the amount of its uncalled capital. As the mortgages are redeemed the company must withdraw its debentures. Conversely, as the debentures are paid off, the company may, on application to the registrar, obtain, *pro tanto*, the release of its securities, provided that the remaining securities fully cover all outstanding debentures. All debentures must be numbered consecutively, and bear full information on their face, of the capital and securities of the company; they must be duly stamped, entered serially in a register kept by the company and in a similar register kept for each company by the land registrar, who must endorse each debenture with the particulars of its registration, without which it is invalid. The minimum value of a debenture must be £50 and the term from six months to ten years, with repayable at any time on six months' notice by either party; transfers are effected by endorsement, but the transfer must at once be noted in the debenture register kept by the company. These debentures are considered as securities in which trust funds may be invested. Quarterly returns are due by the society to the land registrar, showing all the securities held by the company and the number, date and value of all outstanding debentures. The land registrar is thus responsible for ascertaining (1) that the company satisfies the conditions of the law as to its status; (2) that the securities tendered for registration and deposit as the basis of its debentures are good, sufficient and in order; (3) that the debentures are issued in proper form; (4) that they do not in the aggregate exceed the aggregate value of the securities deposited with the registrar. In fact it is in ascertaining that each debenture is based on and covered by a specific mortgage, and in guaranteeing an equilibrium between the securities held by the company and the debentures issued by it, that the registrar is chiefly concerned. It will be noticed that the debentures are repayable at a fixed date, and not by periodical amortization.

The law of 1853 also authorizes a special land improvement company to issue transferable land mortgage debentures based upon charges secured to them for their advances. These debentures are separately based upon individual mortgages or charges, and not upon the mass of mortgages held by the company, they resemble the old form of German Pfandbriefe. They may only be issued under the special sanction, endorsement and seal of the Inclosure commissioners.

The continental debentures are not very unlike the English debenture under the Acts of 1865 and 1870 except that (1) they are for much longer terms; save in exceptional cases, when they resemble the English form, they are issued for not less than ten or more than seventy-five years; (2) they are redeemable gradually—usually every six months—as amortization proceeds for the mortgages upon which they are based; (3) they are for much smaller sums, even as low as £3; those of France are £4; even where issued for larger sums they are usually divisible into "coupures" of £4; (4) they are transferable, when, as is usual, they are made out "to bearer," by mere transfer from hand to hand; even when personal (nominatif) the interest coupons are usually "to bearer"; (5) while the bank can call in and pay off its debentures on notice or by purchase in open market, the debenture-holders cannot demand repayment except when their debentures are drawn for repayment.

Certain privileges are granted to these debentures by all laws; being regulated with such anxious precautions, they are in England and in Europe counted as securities in which trust funds may be invested; in Europe they are generally granted favourable rates of stamp and registration duty, and in France and Italy the holder is entitled to the payment of both interest and principal, notwithstanding any claim by a third party as creditor; the Courts cannot, upon a general decree for a debt, levy execution (saisie-arrêt) upon a debenture, though they may, of course, adjudicate upon it when the

subject of dispute. The object is to secure the ready circulation of the debentures and to free the society from legal difficulties and expenses. In the case of the German Joint Stock Mortgage banks the debenture-holders are represented by the conservator of mortgages, who has large rights of supervision for the purpose of guaranteeing that the debentures are based on solid securities; he is assisted by auditors, who are appointed by a general meeting of the debenture-holders, which may, at any time, be summoned by the conservator. This precaution is very notable and important one, and it is suggested that in the Madras mofussil, both the depositors and the debenture-holders should be represented as against the bank either by the supervising agencies hereinafter mentioned or by the appointment of a co-auditor fully entitled to act with the regular auditors.

Every country has introduced these land mortgage debentures, but in Europe the debenture is the foundation of land credit; in Germany the outstanding debentures amount to at least £250,000,000; in France the Crédit Foncier alone has, including communal debentures, £120,000,000 outstanding; in Austria and Italy they are also abundant. In all countries, moreover, even in England, elaborate legislative precautions are the preliminary to their issue. The reason is chiefly that the landed industry is the most important in each country, especially on the Continent, whether regarded industrially, socially, or politically; on the stability of the landed proprietors, who form the immensely preponderating mass of the population, depends the social and political stability of the country. For these men mortgage credit is necessary, and for this credit, when introduced as a general system, the land mortgage debenture is an essential; and to ensure that this essential shall be readily established, thoroughly marketable, and so absolutely safe that it shall take rank with Government securities in selling price and in lowness of interest. it is surrounded with precautions which have resulted in the establishment of the debenture as a perfectly safe investment, in no way inferior to Government securities, and yet without any actual Government guarantee. For instance, in England the only companies allowed to issue land mortgage debentures are those dealing solely in advances upon land and real property, exclusive of mines and factories; in France it is the same, and in Germany the Landschaften are similarly restricted. Where the newer form of land mortgage (Hypotheken) banks are allowed to issue these debentures, it is only under particular precautions as to capital, supervision, and—generally—the assignment of all the mortgage securities to a particular fund which is the guarantee for the obligations, the reasons being, that when a bank deals in ordinary commercial paper and transactions which are less thoroughly secured than land debentures, these latter would otherwise take risks measured not by the land securities, but by the commercial and possibly speculative business of the company; the debenture-holders would, in case of liquidation, take rank only as ordinary creditors, without express assignment to a special fund of the mortgage securities which are their foundation.

There is another reason for specially safeguarding these debentures, or at all events a result which was foreseen, viz., that the stability of the debentures affords most excellent investment and thus draws out all classes even of petty savings; the European system of very small debentures or divisions (coupures) of debentures renders them accessible to very small investors, who are thus enabled, with perfect safety, to pour out their savings to fertilize the soil, yet retaining perfect ability to obtain their money at any moment by sale of the debentures.

Another advantage of these debentures is, that they enable a bank to finance itself in exact proportion to its needs. If a bank depends upon deposits, it must ordinarily take all that come, and may often be embarrassed with an uninvested surplus, while, on the other hand, it may be subjected to unreasonable rushes. If, however, it depends on debentures, it can issue them exactly as it needs funds or grants loans; it cannot be embarrassed by demands for repayment, and it can, with any surplus funds whether from deposits or otherwise, call in and repay any that are outstanding.

For these reasons it is necessary both to legalize the issue of land mortgage debentures and to safeguard them in the way that European experience shows to be requisite. The points requiring legislation are—

(1) The companies which shall be permitted to issue these debentures; their object, capital, limits of business;

(2) The nature of the debentures, their security, contents, individual value, stamp duties, term, serial character, aggregate limit, method of registration, method of repayment, transfer, &c.

(3) The supervising authority, his powers and duties; the returns to be made to him, the publication of such returns, and the inspection by the public of any returns or registers kept in his office or sub-offices. (*See* draft bill.)

Ordinary Debentures.—The issue of these is not generally provided for in the law; there is nothing even in the French Code of Commerce. But in the newer codes, *e.g.*, Belgium Italy, Portugal and Spain, rules are laid down by which ordinary debentures based on the general credit and actual property of the company may be issued; they may not exceed in value the paid-up capital of the company, unless they are guaranteed by the deposit in the treasury (Cassa dei Depositi e Prestiti) of Government or Municipal paper· they cannot be issued, even when the Articles admit of issue, without a decision of the general meeting, which decision must be published and registered with the registrar, and the directors must further issue a public circular detailing the situation of the company, the value, &c., of the debentures already issued and those proposed, and the guar-

antee available The debentures themselves must contain information as in the circular, and a table of payments of principal and interest. All companies issuing debentures must publish a special balance sheet every month. In Spain, credit companies are specially authorized to issue debentures to the amount of debts held by them and represented by good and tangible securities in their possession. By the Belgian law debenture-holders are entitled to have, of right, a copy of the annual balance sheet and profit and loss account sent to them, and they may be present and speak at general meetings, but have no vote. In England it appears to be considered that banking companies should not issue debentures, but other companies issue debentures against their property and undertaking, usually secured by a mortgage deed to trustees of such property or uncalled capital; the debentures are payable on a given date or within such date gradually by drawings, or without date but redeemable at the option of the company or upon conditions endorsed; each debenture must, by Stock Exchange rules, conatin on its face its number, security and authority on which it was issued. But, as mentioned above, the uncontrolled issue of debentures, a real or so-called, has, it is alleged, resulted in " grave abuse," and further legislation is called for. It appears that the issue of debentures by companies, credit or otherwise, should be regulated by law in India, in order to avoid baseless issues, to protect other creditors, to censure public confidence and consequent free investment in these instruments so essential in financing credit companies. The only present law on the subject iis section 68 of the Companies Act, which provides for the entry in a register kept by the company of all mortgages and charges affecting the company's property, a description of the properties charged, the amount of each charge, &c. Non-registration entails only a pecuniary penalty on directors, and a disability of the company's officers (holding them) from availing themselves of such mortgages as against other creditors. Only creditors or shareholders can inspect this register, so that the general public is unprotected The points for legislation are as in the previous paragraph.

By the English Loan Societies Act, 1840, any such society may issue debentures, free of stamp duty or charge, against any sums deposited with them, and these are chargeable on the society's property and assets; they resemble the Italian " buoni fruttiferi â scadenza fissa," for they are not simply deposit receipts, and are apparently transferable though not so stated in the law.

The debentures of the Irish Charitable Loan societies under the Act of 1843 are to be of not less value than £20; they are chargeable solely upon the funds and property of the society, are transferable by endorsement before witnesses at the loan office, and repayable after notice. They are not liable to any stamp duty on issue or transfer, and, up to £50, the society is permitted after due enquiry to pay their value to the heirs of a deceased holder, who may have died without a will and where no letters of administration have been taken out (*cf.* the provisions of the ' Provident Nominations and Small Intestacies Act ' *s.v.* ' Friendly, &c., societies.' England).

Dividends.—The chief point for notice is the need for legislating against fictitious dividends, paid not from genuine profits but from capital, with a view to give an artificial and often fraudulent credit to a company, while actually, *pro tanto,* reducing illegally the capital and therefore the security of creditors. Curiously enough the Indian company law makes no provision against this act and relegates it to an Article in schedule A which, after all, is only permissive. Legal decisions show that either a shareholder or creditor can obtain the intervention of a Court to prevent the act, and directors are personally liable if a company is being wound up. But it seems that the law should distinctly forbid and penalize the act, wholly irrespective of the intention or consequences of the act, and whether the act be fraudulent, as is usual, or not. In Belgium, managers or directors who, by omitting to make a balance sheet, or contrary to it, or by a fraudulent one, issue dividends not taken from their profits, are liable to a fine of from £2 to £400 and to imprisonment of from one month to one year; the French law is even severer, punishing the act as one of cheating (escroquerie), and the Italian Code, while prescribing a special penalty, does so without prejudice to the penalties of the Penal Code.

It is true that if public-spirited, well-to-do, and courageous prosecutors can be found, there may be a successful prosecution under the Indian Penal Code for cheating; this was actually done in a recent bank case in this country; it was held that to issue a false balance sheet in which the assets and profits were falsely stated, and a dividend declared and paid not out of real profits, but out of capital, so that the public were induced to trust their money to it when its doors ought to have been closed, amount to cheating. But the case took seventeen days, and it is not often that prosecutions of this sort can be undertaken or proved. But, whether or no, it is advisable that public attention should be authoritatively drawn to the matter; there should be a provision in the Indian Act distinctly declaring by statute that the practice is illegal, and absolutely forbidding it; the provision of the standard Articles (73) is insufficient and even misleading, because the Articles are permissive. There should be a heavy penalty attached to the mere fact, whether loss has thereby been caused or not, and irrespective of any penalty to which the directors or others might be liable for cheating if such were proved, or to any civil suit for damages which might be brought.

It is advisable to lay down some law as to profits. In examining the balance sheets, &c., of various Loan societies of this presidency, it has been found that full credit is given for all overdue loans and for the interest due thereon, even though interest has not been received, perhaps for years, and though there may be small chance of recovery

of the loans in full. This is an error which may have serious consequences; in some such societies the whole profits for a year or more might be swept away if doubtful assets were excluded. Precisely this practice has been pointed out in the reports and writings of the English Registrar of Friendly societies in the matter of Building societies, and in Building society (Co-operative bank) manuals and reports in America. Section 26 of the General Banking law of New York State is as follows: "Interest unpaid, although due or accrued on debts owing *to* the corporation or banker, shall not be included in the calculation of its profits previous to a dividend.

"The surplus profits, from which alone a dividend can be made, shall be ascertained "by charging in the account of profits and loss and deducting from the actual profits—

"(1) All expenses paid or incurred, both ordinary and extraordinary, attending the "management of its affairs and transaction of its business;

"(2) The interest paid, or then due and accrued, on debts owing *by* it;

"(3) All losses sustained by it. In the computation of such losses, all debts owing "to it shall be included which shall have remained due without prosecution, and upon "which no interest shall have been paid for more than one year, or on which judgment "shall have been recovered that shall have remained for more than two years unsatisfied, "and on which no interest shall have been paid during that period."

A similar provision for this country is advisable.

Reserve.—The only provision in Indian law for the formation of a reserve is contained in Article 74, schedule A. This Article is not only permissive in that it is part of an optional schedule, but is permissive in its contents; the directors *may* set aside a part of the profits as a reserved fund. Accordingly a reserve is, in Madras mofussil societies, usually non-existent; provision for it is often omitted from the Articles; if existent it is lightly considered or it is weak and even saddled with the proviso that it shall be divided amongst shareholders and directors as soon as it reaches certain proportions, or a given age, usually the profit-sharing period of the society. Hence a permanent Loan society while professing by its Articles to recognize the necessity for a reserve, periodically replaces itself in the position which admittedly is risky, viz., that of having no reserve. It is only in English law that the reserve is thus neglected, at least for Banking Credit and Assurance societies; in European laws it is a universal and absolute rule. In Belgium, section 62 of the code requires for all commandite, Joint Stock and Co-operative societies, an annual apportionment of one-twentieth of the net profits towards a reserve till such time as it shall have reached one-tenth of the capital, which proportion (one-tenth) must be continually maintained by fresh allotments if the reserve should have been reduced by losses, and by the amending law of 1886, directors, &c., who, wilfully reduce the obligatory reserve, otherwise of course than by a lawful application of its funds to cover losses, are liable to the criminal penalties awarded for distributing fictitious dividends (*see* 'Dividends'). In France the law is similar, but no criminal penalty seems to be laid down. The Crédit Foncier provides that its reserves shall be considered full when it equals half of the share capital, till which time at least 5 per cent. and up to 20 per cent of the profits which remain after setting aside 5 per cent on the share capital, is annually increasing. These rules are repeated in the most recent Italian law (1890) is annually increasing. These rules are repeated in the most recent Italian law (1890) must be carried to the reserve. In Italy and Portugal the rules of the Code of Commerce are the same, but the reserve must accumulate to one-fifth of the capital and the fund must be constantly replenished if reduced. In the tIalian Savings banks, nine-tenths of the profits must go to the reserve till it has reached one-tenth of the amount of the deposits, an amount which relating to land credit companies. In Germany all the Landschaften are obliged, by the laws of their foundation, to accumulate reserves, which are now so considerable as to provide a large additional guarantee for their debentures, while the interest arising from them enables the societies to dispense with the former charge to borrowers for the expenses of administration. The new Commercial Code of 1884 requires the formation of a reserve by every company by a 5 per cent contribution from net profits until it reaches one-tenth of the capital, or more if the Articles so require; if shares issue at a premium the excess is to be devoted to the reserve. This reserve must not be drawn upon except to cover losses, but special reserves may be formed to make up deficiencies in dividends, &c. The law of 1889 on Co-operative societies makes a reserve compulsory, but leaves the mode of formation and amount to be fixed by the Articles, failing which a tenth part of the profits is to be devoted annually.

In Hungary the reserves of the land credit institution are an example of other similar funds; there is a compulsory general reserve always amounting to 5 per cent. of the outstanding debentures and never less than £16,666; there is also a special reserve formed by a deduction of 1 per cent from the amount of each loan which granted; this is allowed to accumulate at interest to the credit of the borrower, so long as the loan is outstanding; when this is paid off the amount is repaid to the borrower with the accumlated interest. A Government contribution is also held as a permanent reserve. In Europe generally the reserve must moreover be invested in first-class securities and not in the company's business, and one of the express duties of the committee of supervision, and of course of the auditors, is to verify frequently the existence of these securities. In the United States, the National Bank Act provides that every National bank *shall*, before the declaration of a dividend, carry one-tenth of the net profits of the pending half-year to its reserve till such reserve shall amount to one-fifth of its capital stock; this reserve must be kept constantly

full, and as regards State banks, in case of a deficient reserve, no dividends may be declared till the deficiency is made good, failing which the Comptroller of Currency may compel the association to close its business. In Massachusetts every Savings bank must by law build up a reserve as a guarantee fund, which must amount to 5 per cent. of the whole amount of deposits; there are similar provisions in the law of other States. With regard to Building societies the laws of New York make a reserve optional, but those of Massachusetts compulsory up to 5 per cent. of the capital, *i.e.*, apparently, the nominal capital of all the shares under subscription: the Ohio law also makes a reserve compulsory, but permits the distribution to members of a due proportion of the reserve as their shares reach maturity, a practice contrary to the reserve principle and *expressly* forbidden by the German law of Co-operative societies, which states that retiring members take no part of the reserve; it is a Fund intended for preserving the stability of the society and ought not to be in a state of flux. The reserve though formed from profits does not belong to the shareholders individually; it belongs to them only as a company, and is intended as a permanent guarantee for the stability of the company and the safety of its creditors; it cannot therefore be considered as the property of the shareholders as such, or drawn upon by distribution simply because it has been formed from profits; it is a necessity for the due working of the company as much as is its office, and it can therefore only be considered as a divisible asset in case the company is wound up, nor can it be diminished except to meet the losses for which it was provided.

As regards banks in general in the United States of America, it will be remembered that there is also, in general, a quasi-reserve or guarantee fund provided by the liability of shareholders in excess of the face value of their shares. In other words, the building up and maintenance of a substantial and permanent reserve is an absolute necessity throughout Europe, and in almost all Banking societies of every description in America; such reserve to be annually added to by a share of the profits which, from perhaps 5 per cent in some banks, rises to 90 per cent in the Italian Savings banks.

There is in this presidency special need for a strong reserve, in all the societies called Nidhis (the English Building societies). As pointed out in the chapter on Nidhis, *s.v.* 'Encouragement of borrowing,' in case of failure of the society, it is solely the non-borrowing members who pay all losses; they are liable to pay up the whole value of their shares as contributories in bankruptcy, while, though the borrowing members do the same, it is in their case a mere repaying of what they have obtained as a loan. Hence the non-borrowing member loses (say) Rs. 100 per share, while the borrower merely repays the Rs. 100 which he had borrowed, and therefore loses *nothing*. This is equally the case in England and seems inseparable from the mode of repayment of loans, viz., by mere monthly subscriptions to shares which can be borrowed upon. Hence it is advisable that all such societies should form a special reserve by a special charge upon borrowing members additional to their subscriptions, and of the nature of a commission or insurance premium; this should be credited to the special reserve, which should be wholly liable for the debts of a society in bankruptcy.

It is not absolutely necessary to enter this in the law except as an admonition to societies, for every society can provide in its Articles for the formation of such a reserve; it is here mentioned to emphasize the necessity for making a reserve compulsory by law.

It should be provided by law that all mofussil societies which receive deposits, whether savings or ordinary, or deal in credit advances of any sort, shall establish a permanent reserve, to be accumulated from annual net profits, from entrance fees, fines, its own interest or other sources, up to an amount not less than 20 per cent of the ordinary share capital or 5 per cent. of the amount of debentures or deposits, such accumulation to take place within a certain number of years by the setting aside, before the declaration of the annual dividend, of a definite proportion of the profits, differing according to the nature of the institution; that this Fund shall be kept continually full; that it shall not be employed in the business of the company, but shall be invested in securities and in modes to be indicated by rules framed by Government; that its existence in the bank's custody or in that of some public officer on account of the bank, shall be expressly certified to by the directors and auditors, and that it shall not be subject to pledge except temporarily upon an emergency and then only by a resolution of the directors and that no members shall have any claim upon it unless the society is wound up. Special reserves may, of course, be also formed to meet special needs, or to maintain an equilibrium in dividends, &c., but the general reserve should be obligatory and untouchable except to meet losses.

Property.—By Indian law there is no restriction to the holding of land by companies; this corresponds with the English law as regards trading companies under the Companies' Acts. But there are important exceptions made to this rule, both in England and elsewhere when the societies are savings, banking or credit associations; in England the Land Improvement Company's Act of 1849 limits the holding of the company at any one time to 1,000 acres; the Act of 1853 incorporating a similar company fixes the absolute holding at 50 acres, but allows the company to purchase and improve for the purpose of resale, blocks of land not exceeding 500 acres in the aggregate. The National Banks' Act (United States of America) allows a bank to hold real estate only for its immediate business, and any land which comes to it by purchase in satisfaction of a judgment, debt, or mortgage must be got rid of within five years; the Massachusetts Building Societies law of 1883 has similar provisions, as also Pennsylvania, and the

Building Society law of England (1874) provides that any land which comes to a society in the course of its business must "as soon as practicable" be sold. There are similar rules for Credit societies in other countries and States, especially in the case of the Land banks of Germany and Italy, where banks, if they have to buy in land at auction, must sell as soon as possible.

The reason is obvious; the privileges and facilities granted by the law for the recovery of loans would tempt usurers or money-lenders to unite, under the guise of a company, for the purpose not of general credit, but of granting credit with the express view of ultimately obtaining possession of land, by which means a powerfully financed group of men might obtain most undesirable powers over a mass of proprietors and their holdings; this is especially to be guarded against in countries of small proprietors. To give to Indian Loan societies an unrestricted right to acquire and hold in perpetuity the property of their debtors would be to invite the formation of syndicates of money-lenders, so that the position of the ryots as tenants-at-will of corporations, unassailable by sympathies and fears, would be far worse than as clients of the individual money-lender. The danger is real and not imaginary; there is a real risk lest societies professedly and perhaps genuinely intending merely to cheapen credit with profit to themselves and the ryots, should be seduced by land hunger and by opportunity into becoming mere land grabbers; there is a special danger where the societies are liable to be formed of syndicates of sowcars, even where the good of the ryots may be prominently proposed; "Timeo Danaos, et dona ferentes."

The law should lay down that no mofussil society which deals in land or agricultural credit shall have power to hold beyond a certain area or for a period exceeding three years; genuine Credit societies will not feel this to be any restriction, while land grabbers in disguise will be defeated. It might be provided that any Co-operative society may hold land for the purposes contemplated by its foundation; *e.g.*, a society founded to provide houses for its members should, even though a Credit (Building) society, hold land for the *bonâ fide* purpose of improving and selling such land to its members for building purposes without reference to such period of three years.

Members.—The chief point to be mentioned is that relating to the withdrawal of members and their share of a society's capital. The Indian Companies' Act relates merely to trading companies with fixed capital, and its provisions and those of the Articles in schedule A consequently contemplate transfers of shares and not withdrawals. But the Co-operative societies (Loan and Building societies of all nations) are aggregations rather of persons than of capital, and as it is impossible to keep a member in a society against his will, the law everywhere provides facilities for his withdrawal, and for his receiving at withdrawal his subscribed capital with such share of the profits as the society determines by its Articles. In Europe, especially in the German law of 1889, and in the United States, the laws themselves make direct provision, but in the English societies the subject is merely mentioned as one of those for which the Articles must necessarily provide. Either plan may be followed. The time—*e.g.*, end of the business year—at which withdrawal may take place, the notice to be given, the question of profits, &c., may be left to the Articles, the law merely laying down that an unadvanced member may withdraw, receiving at withdrawal his subscribed capital, less anything then due; such retiring member to have no claim on the reserve.

The decease of a member is usually treated as a withdrawal.

For certain privileges attending deposits or shares left by deceased members, *see* ('Privileges').

The law of Co-operative societies frequently provides for forced withdrawals. In the Building societies of America (*e.g.*, in the law of Massachusetts) it is laid down that in the case of unadvanced (non-borrowing) members, societies shall have power to compel withdrawal on payment of their share values and all profits due up to date; the object of this is to prevent the infructuous accumulation of funds towards the close of the share period; when the societies have to keep money in hand to pay off matured shares. This may also be provided for in the Articles, which, by the English law, must provide for the withdrawal and paying off of members. The German law provides for the exclusion of members who have lost their civil rights or who are found to be members of other similar societies (compare the provision in the English law of Savings banks): of course the Articles may provide other cases. The German law also provides that where a shareholder's judgment-creditor has for six months failed to get his decree executed against his debtor's goods, he may compel the society to dismiss the shareholder and make over to the creditor the value of his share. On the other hand, the New York Building Society law (and probably those of other States; *cf.* the general Homestead laws) provides that the shares of a member shall be exempt from execution for debt up to the amount of £120. The propriety of this latter privilege and its extension to India is elsewhere discussed. (*See* 'Privileges' and 'Homestead law.')

The provisions of the existing law regarding the liability of past members for contributions in the case of the failure or bankruptcy of the society should be continued, viz., that they shall be liable, if the society is wound up within one year of withdrawal, for all the engagements of the society entered into prior to the date of withdrawal. It has been proposed to do away with such liability; that would be a grave error, for it would induce reckless action on the chance of profits, and then wholesale withdrawal. The right of free withdrawal connotes liability continuing for a definite period. Moreover in the

case of Co-operative societies where free and absolute withdrawal is allowed, and not mere transfer of shares to another as in the case of joint stock companies, past members should be liable equally with present members; otherwise as soon as a society's reputation became in doubt, members, however responsible for such bad reputation, would retire wholesale, a matter of comparative impossibility in the case of a joint stock company, where no one would buy doubtful shares. In an ordinary Joint Stock society a past member is only responsible *after* present members, because a member practically cannot retire from a falling society; in a Co-operative society with free withdrawal a man can retire when he pleases, whether the society is falling or not. Hence in every law in the world free withdrawal is accompanied by co-equal liability up to a certain period. In the English Co-operative Societies' Act one year is the period. In the Italian, Swiss and German laws two years and in the French law five years; in the German Co-operative law a withdrawal within six months before a failure is considered as null and void.

Management and Administration.—It has already been suggested that legislative precautions are necessary to ensure that only companies which have a fair chance of success, and are founded on reasonable conditions and with reasonable Articles, shall be started. But it is in the subsequent management of the society that so much goes wrong; the insufficiency of business precautions, the carelessness, greed or fraud of directors and officers, the utter ignorance or apathy of shareholders, have wrecked hundreds of societies even in England and America. For instance the report for 1891 of the Comptroller of Currency, U.S.A. regarding the National banks, gives details of twenty-eight banks which had stopped payment in the year under report; in twenty-one of these cases—if not in all—the failure was due to utter neglect of duty by directors and inattention by shareholders. The business was often left wholly in the hands of a president, cashier, &c., so that funds were utterly wasted or embezzled, usually by so-called loans to the president or his relatives and friends; in several cases the whole capital had disappeard. If these neglects of duty, frauds and abetment of frauds by neglect or worse, take place so freely in America, are not the same likely to occur in India, where the business faculty yet remains to be developed, where, owing to social characteristics, there is a directt tendency towards leaving business, either from undue confidence or from sheer indolence, in the hands of one or two persons, and where publicity is the exception rather than the rule? The history of scores of failed Madras Loan funds amply proves this; that history—for the details of which *see* 'Madras Loan societies'—shows precisely the American causes of failure; business left wholly to the secretary, loans advanced to directors and friends without due security; blank cheques handed over to the secretary; no general meetings; utter neglect of duty by all concerned.

The judgments in a recent bank case, delivered since this section on legislation was written, emphasize these remarks; incorrect balance sheets, dividends paid out of capital when the bank was insolvent, neglect or mismanagement, were but too fully proved, and yet might have been prevented had there been proper internal and external control.

It is perfectly true that legislation cannot prevent these frauds and neglects, but it may minimize them by prescribing certain formalities and safeguards, and by providing such supervision as will ensure the use of these safeguards; supervision is not intended to relieve the directors and shareholders of their duties, but to enforce attention to those duties and to ensure the detection of neglect of them. Proper audit and true balance sheets, the real valuation of assets by independent professional auditors, are absolutely necessary; attention to duty by directors and shareholders is, however, the chief point, and though this cannot be secured by legislation it may be assisted; it is, for instance, to make shareholders watchful that a reserve liability, *i.e.*, liability to pay something more than the share value in case of winding up (*see* discussion of the word "limited," p. 277 *supra*) has been proposed in England as practised in other countries. But to assist and stimulate watchfulness, the supervision of experts is desirable; in the United States there are, by the National Bank Act, a body of Government Examiners,—in 1891 there were 30—and the Comptroller of Currency considers that these officers, whose fees are paid by the banks, are "indispensable to the conspicuous success which "has attended" these institutions from the beginning of the system, because they have been able to detect derelictions of duty and to promote sound and conservative banking. This supervision, which is also in vogue everywhere in Europe as regards Land Mortgage and other special banks, is, in the Co-operative banks, provided by the inspectors of the Unions or groups of banks, and the German law of 1889 lays down very full instructions on this head (*see* 'Supervision'); the duties of the English Registrar of Friendly societies are similar, but not nearly so extensive or complete. In fact the belief that Joint Stock or Co-operative societies may be left to their own devices is a mistake, at least where credit or banking operations are undertaken; it is not "Laisser faire," but "Aider á faire" that should be the legislative motto, especially in the inception of such institutions. It is better to run the risk of somewhat rectricting the action of societies than of allowing them to perish of anæmia or paralysis; or worse of allowing them to rob and plunder depositors and shareholders at pleasure and generally with impunity. Capital will turn from the risk of loss in undisciplined societies to the infructuous safety of Government paper or to the competition for valuable lands, a very different thing, it may be remarked, from the "investment of capital in agriculture," which is one object of rural banks. One disreputable and alarming case such as that of the 'Liberator' Building society in England or the 'Himalaya bank' case in Northern India may do infinite

harm, not merely to the immediate sufferers, but to the practice of fruitful thrift by banking deposits, and to the hope of organized rural credit. It is then necessary to protect the banks against themselves by an exposition in the law of the duties of directors and members, and by providing means for frequent inspection and criticism, and for the stimulation of members and directors in the paths of sound business; and this will be the more important as the joint stock or co-operative idea takes hold of the people, so that companies spring up, capital flows in, and business becomes competitive. Of course legislation cannot take the place of business capacity; it is the vigilance and prudence of those concerned that form the true safeguard; the law cannot supply these, it can only lend a helping hand.

The various points will be considered in the following paragraphs, especially under 'Directors,' 'Councils of supervision,' 'Loans,' 'Audit,' 'Balance sheet,' 'Supervision and inspection,' 'Government control.'

Directors.—The introduction into India of provisions similar to the English Act of 1890 has already been suggested, viz., the placing upon directors in case of loss by reason of an untrue or incorrect prospectus, the burden of proving their exculpation and non-liability for such loss; they must prove that they believed and had reasonable ground for believeing the statements in the prospectus. Similarly by the German Code of Commerce (1884), directors and the committee of supervision are bound to use every diligence, and penalties are laid down for a variety of misdemeanous. In such cases the plaintiff or prosecutor has to prove merely the facts and is not bound to prove the culpability of the Directors, &c.; the facts being proved the onus lies on the directors of proving that they were innocent of fraud, or that they are not liable, and that they have acted as good men of business. In the U. S. A. National Bank Act there is a provision (section 118) that if the directors knowingly violate or knowingly permit the violation of any of the provisions of the Act, "all the rights, privileges and franchises of the associations shall be thereby forfeited," upon a judgment to that effect being given by a competent Court upon the suit of the Government Comptroller of the Currency; each director is also personally liable for any damages caused by each violation. The section is evidently intended to enforce watchfulness by the shareholders over the action of the directors, since the penalty of violation is shared by the whole association. Probably this section is hardly used, at all events till the violation of the Act or of good management is such that the company is practically insolvent. But its possibility must be very useful as a preventive.

The comptroller, however, complains (Report of 1891) that legislation is required to define without doubt the responsibilities and duties of the directors; they are apt, like many other trustees, to be ignorant of their heavy responsibilities as trustees and agents of the company; they are apt, though trustees, to neglect their trust in favour of private business; they are very apt to use the companies, especially in the case of Credit societies, as a means of getting large loans and credit for themselves and their friends. Many of these powers and duties are already mentioned under 'Balance sheet' 'Dividends,' &c., either in the law or in the Articles, but some require to be specially mentioned.

In all *except* Co-operative societies, directors should be compelled, as in Europe universally, to call a general meeting to discuss the question of the writing down or replacement of capital or of liquidation, when the capital is reduced by loss, &c., below a given proportion of the original sum; this should be made part of the law, and the mere breach of the law should, wholly irrespective of consequences, be punishable by fine, or even by imprisonment when the case is serious. The supervising committee, if any, and the manager should be held similarly responsible; it need hardly be said that an auditor, who did not discover and point out the loss, would not be an auditor worth the name.

It should be laid down that no operation other than that contemplated by the memorandum of association shall be undertaken by the directors, under penalty of personal responsibility for all debts and losses. It should be laid down in the law itself that the directors shall not pay any dividend except from the net profits, or from some reserve specially accumulated *ad hoc* from the profits of past years. It is found advisable in all European and in several American laws to make this a statutory provision (of the English Railway Companies' Act of 1867) with severe penalties in case of breach; it receives a prominent place in such laws, experience showing that the point must be distinctly adverted to and severe penalties awarded for breach of duty (*see* 'Dividends' *supra*).

It should be provided by law that every director should hold a certain number of shares, and that these should be inalienable during office; this is universal in Europe and in the United States; in Italy the Code of Commerce (1884) lays down that each director shall deposit his shares in the company's safe as a security; that they shall amount to one-fiftieth of the Company's capital, not beyond £2,000 however, and shall be personal. The French Code is similar (as also the special law for the Crédit Foncier), and adds that the shares shall be stamped with a special stamp to show their inalienability. Other countries have similar provisions; the Italian law, however, specially lays down that, in the case of Co-operative societies, this provision may be dispensed with if the Articles so permit. The Swiss law allows the Articles to prescribe the number of shares to be necessarily held by each director of a joint stock company. The Indian Presidency Banks' Act, section 27, provides that every director must hold unencumbered shares to a certain value, and that he losses his office if he ceases to hold such shares. Similarly the National Bank Act of the United States provides that each director must

hold at least ten shares, which must not be pledged or hypothecated in any way, and that he must vacate office if this rule is broken; so also South Carolina, California, &c. The universal rule is that a director shall have a distinct and considerable stake in the welfare of the company, that such stake shall not be decreased by any hypothecation of his shares, and, further, that his interest shall be pledged to the company by way of security. In England the Co-operative and Building Societies' Acts provide that every officer who receives or is accountable for money shall give security; it is not quite clear if this includes directors, but as it is the express duty of directors in ordinary Building societies to be present and receive money, it seems that they are liable; a director is an officer (section 16).

It should also be provided that the directors of a bank or loan society, or the undivided members of their families, shall be ineligible for advances from the society, or if eligible, that they shall not receive such advances beyond a certain small proportion of the total loans, and that the loans shall be specially sanctioned by a general meeting on the recommendation of the committee of supervision if such exists. This law is general in the United States and is the result of experience. There is no prohibition of this sort in the National Banks' Act (U.S.A.), and the report of 1891 shows that out of 28 banks which failed in the year, the failure was, in sixteen cases, due chiefly to the large loans to the president, directors, &c. "Heavy loans made to the directors aggregating three-" fifths of the capital of the bank," "the president borrowed large sums," "reckless " loans to the cashier and his friends," &c., are the remarks made. The Rhode Island Banking Act forbids such loans in the case of Savings banks; the South Carolina Banking Act forbids them in the case of any bank, and a Director violating the rule may be criminally punished with fine and imprisonment. The practice is not specifically forbidden in the special laws of several States relating to co-operative banks, but these are apparently amenable to the general law, and in California it is expressly laid down that no such loans can be made to directors or officers; should such loan be made, the director *ipso facto* vacates office. The Indian Presidency Bank Act, section 63, requires that by-laws shall be made by each bank, regulating the circumstances under which alone advances may be made to directors or officers of the bank or to their relatives, or to companies or firms with which they are connected. The German law of co-operative societies lays down that no advance can be made to a director except with the express sanction of the committee of supervision, nor can a director be received as surety for a loan without such consent. There is a strongly expressed feeling in England also that directors and officers of Building societies should not be allowed to borrow from the society. The history of the Madras loan Funds shows that some such provision is necessary here; one great cause of failure has been the grant of loans to directors and their relatives on insufficient or worthless security; not merely have the Madras Funds thus suffered, but other Indian banks, and the case of one large failed bank provides an illustration of the danger, several Directors owing, it is said, an enormous sum on inadequate security. It may be argued that to deprive directors of this right to loans would be to prevent men from taking up the post. As suggested, the prohibition need not be absolute, but should be specially safeguarded; directors ought not to be able to grant themselves loans at pleasure and to any extent. But even total prohibition is not unfair nor inadvisable; Directors are accustomed in Madras to make their office a very paying concern, what with salaries, share of profits, sitting fees, &c., and the posts are in certain societies very keenly contested. These advantages ought to suffice. As elsewhere stated, the idea that directors must be highly remunerated for their work, largely results from the nature of the Companies' Act, which contemplates only trading societies; the new co-operative societies should be less grasping at emoluments; in the American, German and Italian societies, especially in the latter, the directors render wholly gratuitous services, as do the Trustees of the Savings Banks of England; the idea of public service for its own sake is too much lost sight of in this country.

A term—in Europe it is six years—might be enacted as the maximum for which directors may hold office, it being provided that they are re-eligible; conversely a general meeting should always have power, as in Continental Europe, to remove directors at any time for proper cause; the Presidency Banks' Act permits this by a "special," resolution, passed by the votes of shareholders, &c., holding at least half the capital; section 65 of schedule A of the Companies' Act also makes this *permissive*. The society should not be allowed to contract itself out of this right by the articles, since directors are merely representatives—fiduciaries—of the society, which should consequently have power to change such representatives, if it has lost confidence in them. It might be well, moreover, to provide that a certain proportion should retire each year and be ineligible for re-election till at least one year had passed; this would prevent loss of continuity and of knowledge, and would at the same time tend to prevent directors from making the bank a "close borough" and to keep them from avoidable neglect, mismanagement or fraud.

Section 57 of schedule A—disqualification of directors—should be made part of the law, at all events for all co-operative societies and societies dealing in credit and banking, or with savings properly so called. The European law is much stricter in its enactments, not only are the general provisions of article 57 usually embodied in the law, but other disqualifications, *e.g.*, the directors must have a certain number of shares or lose their posts (see *supra*); in Italy the Commercial Code of 1884 provides that any director, auditor or representative of a company necessarily; vacates his office if declared bankrupt, or

condemned to a criminal penalty for any offence, or to a police penalty for corruption, forgery, theft or fraud; a very wholesome provision and one not unnecessary in this presidency, to judge by the reports of certain societies.

Committee of supervision. A most important organ of societies in Europe is the 'committee of supervision,' who control and audit by a continuous process, the work of the society in general, and of the directors in particular. For a description of their duties in general, *see* the general section on 'Supervision' as well as the paragraphs in the description of European land and popular banks; for the law actual and proposed *see* below in this chapter *s.v.* 'Supervision.'

General Meetings.—Properly speaking the general body of members is the source of all power, and their powers are usually exercised at general meetings; it is therefore of paramount importance to ensure that these should be properly convoked and conducted. The rules of the Madras Funds are frequently very imperfect even when they add a clause in the articles excluding the provisions of schedule A, from operation. The result is that many important items are left out, *e.g.*, the appointment of auditors, which should always be by general meeting, quorum, polls, proxies, the denial of a vote to a member in arrears, &c. The law should lay down that the articles should provide distinctly on all recent 'Liberator' case.

Loans.—There should be a provision in the law that no society should lend more than a certain proportion of its available funds to one person. In the National banks (U.S.A.) the rule is that no amount greater than one-tenth of the paid-up capital shall be lent to any one person or firm; this, however, does not include amounts advanced by the discount of good bills. Similar restrictions are found in the Building Society (co-operative bank) laws of the United States; the New York law provides that no member shall hold more than ten unpledged or twenty pledged shares in a series, and Massachusetts not more than twenty-five in all; as the loans are repaid solely by taking shares, this provision limits the loans. The provision of a limit might have prevented the scandal of the recent 'Librator' case.

As mentioned *s.v.* 'Directors,' there should be restrictions regarding the borrowing by directors.

Audit.—For full details on this essential subject *see* the general sections on 'Audit' and 'Supervision.'

The internal audit of a society will be briefly discussed *s.v.* 'Supervision;' the legal provisions for external audit remain to be considered.

The Indian law (section 85) makes audit compulsory, "once at least in every year "the accounts of the company *shall* be examined, and the correctness of the last balance "sheet and its conformity with the law ascertained and certified by one or more auditor "or auditors." Hence the law is satisfied if any person, however ignorant of auditing, or even of accounts, is taken as auditor; in a recent Indian failure, it was admitted that the auditor was absolutely incompetent and merely signed his name; the history of many Madras Nidhis shows that their audit has been a mere farce as proved by the disgraceful and wholesale defalcations that took place unchecked; in English Friendly societies in the days prior to the Act of 1874, the village schoolmaster, as being "conversant with accounts," was often selected in order to satisfy the law. Nor is any method of audit prescribed, nor are the points laid down to which audit should specially be directed, nor is it made obligatory that the articles should, in default of the law, make provisions to ensure a proper audit.

The new German law of co-operative societies has a useful chapter on audit (*see* below *s.v.* 'External supervision'). European law generally provides in the law itself, for audit by the committees of supervision, *i.e.*, by an internal audit, but the new law, based upon more than thirty years' experience of co-operative societies, chiefly credit, has adopted what a French writer calls "the English practice of audit by an expert "outside of the society," *in addition* to the obligatory committee of supervision. The German law provides that there must be "at least once in two years an audit by a *compe-* "*tent* auditor, not belonging to the society." This auditor must, if the society belongs to a Union of societies—one special function of which is the provision of expert examiners—be appointed by the Union; if it does not belong to such a Union, the Court which maintains the local commercial register of societies, appoints him on the nomination of the society, after the nomination has been approved of by "the authorities," who, for this and other purposes, are responsible officers designated for the several localities by the Government. A copy of the auditor's report must be sent to the Union when he has been appointed by the Union, and an entry that the audit has been effected must be made in the register of societies. The committee of supervision must assist at the audit and must explain the results to a general meeting immediately the report has been issued. The Imperial Chancellor is authorized to issue general rules for the forms in which the reports are to be issued; this latter provision is important; when no specific form of return is prescribed, the reports are imperfect, unsystematic, and being based on different methods do not admit of tabulation for comparative purposes. The National Bank (U.S.A.) legislation provides for auditors (examiners) appointed by the Comptroller of Currency; section 96 runs as follows:—

"The Comptroller of the Currency, with the approval of the Secretary of the Treasury, shall, as often as shall be deemed necessary or proper, appoint a suitable person or persons to make an examination of the affairs of every banking association, who shall

have power to make a thorough examination into all the affairs of the association, and, in doing so, to examine any of the officers and agents thereof on oath; and shall make a full and detailed report of the condition of the association to the Comptroller." . . .
"But no person shall be appointed to examine the affairs of any banking association "of which he is a director or other officer."

These examiners are paid by fees levied on a prescribed scale from the banks examined; there are about thirty of them in regular employ, and the importance of their duties is becoming annually more visible. It is found that it is not the directors who discover improper practices and frauds; indeed it was by the fraud or negligence of many directors or chief officers that so many banks failed in 1891; the discovery was generally made by the examiners whose independent and searching enquiries laid bare the mischief. The duty of the examiners is not the mere audit of the accounts; it extends to an enquiry whether the various provisions of the law have been duly complied with as regards the issue of loans, as to the holding of shares by directors, as to the due disposal of any real estate that might have been acquired; as to the genuineness of dividends, &c. Hence the examination is of a most searching character and comes rather under the head of Government supervision, as the reports are made in order to satisfy the Government Comptroller that the banks are working not merely soundly but legally.

The law of Building societies in England provides that the articles shall prescribe rules for due audit which shall include an examination of all mortgages and other securities, and a Bill of 1893 provides that one at least of such auditors must be "a professional accountant." The Friendly Societies' Act makes annual audit and quinquennial valuation compulsory, and permits the treasury to appoint public auditors and valuers, but the employment of such public officers is not obligatory; the provision in the Co-operative Societies Act is similar, but if the auditor is not a public auditor, his name, address and calling, and the authority and manner of his appointment, must be communicated to the registrar together with a copy of the auditor's report. The Trustee Savings Bank Act (1863) requires that "a public accountant or one or more auditors be appointed by the "trustees and managers, but not out of their own body, to examine the books of the bank," and report the result at least once in every half-year; but the new complementary Act of 1891 provides an inspection committee, who may appoint examiners with powers as in the National bank (U.S.A.) system, and who may compel a bank to make sufficient rules for "maintaining an efficient audit"; the very first report of the committee shows the necessity for the new Act. As stated below ('Committee of supervision'), a continuous audit is found necessary for this class of society, and if this is not provided by the societies in a satisfactory manner, it must be provided for by authority.

It is, however, for the efficiency, not for the mere establishment of an audit that the law must provide; every society provides in its articles for a periodical audit, if only to satisfy the public, but without provision that such audit shall be thoroughly efficient the provision may be worse than useless; it may be the means of building up undeserved confidence, of lulling wholesome suspicion, of giving a false *imprimatur* of security, a false authentication of fraudulent accounts, and, in consequence, of increasing the inevitable catastrophe; the various recent examples in India and in England are cases in point. It is not, of course, possible to lay down in the law the rules and methods of audit, but it is possible to provide for the making of rules which shall ensure that the authorities, whether within or outside of the society, shall maintain an efficient audit, varying according to the nature of the society.

The Indian law should then provided for the competency of the auditors and the efficiency of the audit. Auditors of the skill and standing of chartered accountants are out of the question for mufassil societies, and will probably be unnecessary for many years since the transactions will be comparatively simple and few. But that they should be trained to the work cannot be questioned, and that they should be independent of the societies is hardly doubtful. Probably men of the Local Fund auditor stamp, or better, of the Assistant Inspectors of Local Fund Accounts from the Accountant-General's office, would fill this rôle. It would be sufficient for the law to provide that the local Government should be empowered to make rules, either direct or through the department or officer who may have the supervision of rural credit, for efficient audit; this would give the necessary elasticity, especially when Unions are formed among the various classes of credit society.

But, since the importance of several points, already mentioned as elsewhere compulsory, is recognized by the Indian law in its schedule A, there is no reason why the Indian law should not equally make them obligatory instead of permissive, *e.g.*, the appointment of auditors by the general meeting and *not* by directors; the eligibility of any person whether member or otherwise, provided he is not a director or office holder, or interested otherwise than as a member; the appointment of an auditor by the local Government if no auditor is appointed by the society; the power of an auditor to examine the directors and others orally and to demand explanations; the duty of the auditors to report to the general meeting, together with any explanations of the directors, &c., that may have been found necessary. Several of these provisions are found in the 'Presiden-"cy Banks' Act.' It might be well also to provide that there should always be two auditors, appointed for two years, and retiring in alternate years, with eligibility for re-election; this would provide that continuity of knowledge and familiarity with the

society's operations and methods which is so desirable, if not essential, while ensuring that fresh talent and fresh energy might, when desirable, be brought to bear upon the subject.

Supervision.—This section relates to the requisite provisions of the law for that supervision of societies which is found necessary in all countries, but which is practised in very different degrees, and by varying methods. The importance of the subject has been mentioned in the introductory paragraphs of this chapter, and its necessity is taken for granted for mofussil societies in general, and credit societies in particular, both for the protection of the public, for the protection of members, and for the safety and success of the society and the development of its operations. For full details of supervision as practised in various countries *see* the paragraphs on 'Supervision' under the various classes of bank; for a discussion of the local methods, &c., to be adopted *see* the section on 'Supervision' in the proposals for this presidency; only so much is entered here as will explain the proposals for legislation.

The supervision is both internal and external as in the case of audit; the internal is that of the members, both as individuals and by committees; external is that by means of the publication of reports and returns, by the action of Unions, and by the operation of public departments or officers, whether on their own initiative or on that of the society or parts of the society.

Internal—Right of Inspection of books by Members.—The Indian law does not provide in its text, but only permissively in schedule A, article 65, for any right of inspection of the books by the individual members, and it has been recently contended in Madras that no individual has any such right. Now the Friendly Societies' Act (1875) and the Co-operative Societies' Act 1876 (now 1893) of England, both recognize this right; the latter Act (1893) provides that any member or person having an interest in the funds of a society shall be allowed to inspect his own account and the book containing the names of the members, at any reasonable hour at the society's office, subject to regulations passed by the general meeting; the society may provide rules for the inspection of other books, but not so as to permit of the inspection of a loan or deposit account of any other member without that member's written consent.

This section, slightly amended from the Act of 1876, is said to have worked very well, not so much by its positive results, as by its preventive effect. Care, however, has to be taken on the one hand that this liberty is not converted into a method of harassing directors, and on the other hand, that the books and accounts are so kept that persons of ordinary education can obtain information from them. So useful is the provision that the Registrars, both past and present, of Friendly societies, unite in demanding that the privilege should be extended to Building societies; the right of inspecting books is common to the members of all partnerships, and these societies are but partnerships on a large scale; the mere fact that such inspection is possible will tend to prevent frauds that might otherwise occur. Moreover, since by the size of the partnership, the management is necessarily confined to a few members (directors), there is the greatest necessity that those who are not entrusted with the management shall retain the right of ascertaining for themselves how things are going on. The final Bill, however of 1893, does not provide such power, but gives to the registrar, as in section 18 of the Industrial and Provident (Co-operative) Societies' Act of 1893, power upon application by ten members of any society, to send an accountant to examine the books and to report, provided that such members deposit security for the costs and defray the actual expenses. The Registrar may also, of his own motion, with the sanction of the Secretary of State, appoint an inspector where a society for two months after notice has failed to make or complete a return legally required, or where not less than three members furnish evidence, by statutory declaration of facts which, in the opinion of the Registrar, call for investigation, or for recourse to the judgment of a meeting of the members.

The Trustee Savings Banks' Act (1863), section 6 (7) provides that a book containing a list extracted from the deposit ledger shall be drawn up and examined by the auditors; this list is to contain the amount due to each depositor, each individual being designated not by name but by his pass-book number; this book, duly checked and certified by the auditors, is to be open for inspection by depositors and comparison with their pass-books throughout the business hours of every working day.

The New Jersey (U.S.A.) law of co-operative societies provides "that any member "or other person having an interest in the fund of any such society may inspect the "books thereof, at all reasonable hours, at the office thereof." The law of societies in Maryland and Virginia provides that persons owning 5 per cent. of the stock may demand in writing from the society's officers a statement of the society's affairs, which must be furnished *under oath* within twenty days, and kept accessible to all shareholders for six months under a penalty of £10, and a daily subsequent penalty of £5 till produced.

The Indian law should contain provision for the inspection of books by members and others having a pecuniary interest in the society, but under proper conditions, which should be prescribed by the articles. It is still more necessary that provision should be made similar to that in the English Co-operative Societies Act of 1893 regarding the powers of the Registrar upon the application of ten members, or on his own motion in certain cases, to appoint an inspector to examine the books—not necessarily the affairs—of a society. All rural banks, receiving subscriptions from members and deposits whether from members or others, should prepare and keep on view a list similar to that required by the Savings Bank Act.

Committee of Supervision.—Experience in Europe in the administration of societies has resulted in one absolutely universal rule, which is now statutory by the law of every country whether for ordinary joint stock or for co-operative societies, viz., that the directorate and the administration generally must be supervised by a standing committee of supervision (consell de surveillance, sindaci, &c.) which is formed or persons outside of the directorate but within the society, and whose sole duty is supervision. This is distinct from and additional to the ordinary audit which should be by auditors *ab extra* and is generally an annual or periodical affair, though, as will be seen, continuous audit is now advocated for Savings, Building and similar societies. The work of the committee of supervision is that of continuous audit throughout the year with additional duties and powers of control. For a full description *see* ' Committee of supervision ' in the chapters on German land banks and on co-operative banks. It is noteworthy that the Co-operative law of Germany, 1889, has expressly introduced as obligatory this organ of administration, which was omitted from the law of 1868; the French law of societies (1867) does not contain such full provisions, but it is believed that the abortive Bill of 1891 was complete on this point. Moreover the " censeurs," who fill this rôle in the Crédit Foncier, have large supervising powers (*see* ' Crédit Foncier), and their separate annual report upon the company's affairs, which is based upon their comparison of the directors' balance sheet with the transactions of the year and the position of the society as ascertained by them, is made to the general meeting and is considered with the directors' report.

The Belgian law provides that the general meeting shall appoint these communities, who may be paid, and should hold and deposit with the society a certain number of shares; if, during the year, any of them dies or quits office, the directors must at once convene a general meeting to supply the vacancy. They have unlimited supervision and control over every operation of the society, they may examine, but without removing, all the books, correspondence, accounts and documents of the society; they receive every half-year from the directors a statement of the financial situation, and are bound to report to the general meeting. They have the same responsibility as directors and may form with them a deliberative assembly. In Italy the committee (Sindaci) must not be related to directors even within the fourth degree. They must examine all the books at least once in three months; they must make frequent and unexpected examinations of the funds, and verify, at least once in a month, the existence in hand of all securities and valuables pledged to or deposited with the society; they may convene extraordinary general meetings and must attend all general meetings; they must examine and report on the balance sheet, and, generally, must see that the provisions of the law and of the deed and articles of association are being duly carried out by the directors, whose meetings they may attend; they may also require that their proposals should be entered on the minutes of meetings, whether those of the directors, or of general meetings. It is to them also that individual members present their complaints against the conduct of directors, and they must forthwith enquire into such complaints, and enter them in their reports to the general meeting, and if they have been made by members jointly holding one-tenth of the capital, they must report on such complaints with their own opinion and suggestions to such meeting. It is through this committee also that the general meeting proceeds against directors for any acts of misfeasance.

By the German law of societies (Code of Commerce, 1884), a committee of supervision is equally obligatory, and very detailed rules enact its powers and duties; the report on the original Bill compares the general meeting to the national electoral body, the directorate to the executive authorities, and the committee of supervision to the Parliament which controls the executive; the importance attached to the committee may be gauged by this comparison. So also the German law of co-operative societies (1889) is equally precise, its provisions being similar to those of Italy, but with additions. Members of this committee are not allowed to have any pecuniary interest in the results of the society's operations, and cannot delegate their powers; no director can get an advance or stand surety for an advance without their express consent. They may temporarily suspend any director pending a general meeting which should at once be convened, and must then take steps for the conduct of business. They are bound to act as honest men of business and are equally liable with the directors to severe criminal penalties; amongst these it is laid down that of a society has been left for more than three months without a committee of supervision, or if the committee has been deficient in number for longer than that period, the directors and, in the second case, the existing committee men are liable each to a fine of £30 or three months' imprisonment or both. Very severe criminal penalties are attached to false statements of accounts or of the financial situation. Other duties are imposed by the law and still others may be fixed by the articles (*see* the translation in another appendix).

Provision for some such internal committee of supervision should be made in the Indian law. It is notorious that it is in the management of affairs that some mofussil directors have been grievously careless and even criminal, and it is necessary to provide men who shall serve directly as eyes to the shareholders and be the safeguard of depositors, and whose special duty shall be the examination of the accounts and securities, especially as it has been judicially decided that a director is not bound to examine entries in any of the company's books, nor is he personally responsible for the contents of the books, if innocent of any fraud with respect to them. A " continuous audit " in which a professional auditor will, throughout the year, and at least weekly, and without notice, examine any of the accounts, and especially will take the pass-books as they come into

the office and compare the previous entries with those of the ledger, is practised in the best English Savings banks, and that this shall be made compulsory by law, or that some similar precaution be taken, is the demand made by the most experienced men, whether Government officials, publicists, or bank officers, both for Building societies and Savings banks. The necessity is proved both by the result of enquiries into failed societies and by the evidence offered before the select committee on Savings banks in 1888 and 1889 and by the report of that committee The recommendations have resulted in the insertion of stringent provisions for audit in the Building Societies Bill now (1893) before Parliament, while the powers given under the Savings Bank Act of 1891 to an inspection committee are very extensive. The first report of the inspection committee appointed after the Act of 1891 emphasizes the necessity for a continuous audit; the committee reports that in many instances the statutory requirements as to management have been neglected either through ignorance of the law or through general laxity, some banks, even ignoring their own rules. Now a continuous audit, though possible with great banks holding crores in deposit, is out of the question with small banks. Hence the control must be exercised by an unpaid agency always at hand, and that can be supplied by a committee of supervision as above described.

It should then be made obligatory by law to establish a standing committee of supervision who should be appointed by the general meeting for a term of years with annual retirements and elections or re-elections, and should exercise powers of examination and control similar to those described in the European laws. The so-called "auditors" or "patrons" or "auditing directors" occasionally found in the Madras Funds are wholly insufficient; they are usually the directors themselves, and the 'auditors' are often appointed by the directors, while their powers are ill defined and often slight.

Appointment of Inspectors.—By section 86 of the Indian law a company may, by *special* resolution, appoint inspectors for the purpose of examining into the affairs of the company, and these inspectors shall have the same power as those appointed by Government (sections 82, 85). The reason for making this appointment depend upon a special resolution is not apparent; these "special" resolutions, passed by a three-fourths majority and confirmed at a subsequent meeting, are very difficult to carry. The provision is opposed to the interest of the body of members, and contracts with the powers given to general meetings by European law. Seeing that the society consists of the mass of members, for whom the society exists, and whose mere representatives the directors are, it would seem a necessary sequence that the members, at a general meeting, should have every facility for appointing inspectors whenever they see fit to enquire into the affairs of their society. If the society is working well, and the directors and officers are honest and diligent the latter have nothing to fear but everything to gain; if they are not, it is to the interest of the members to ascertain the fact. An ordinary resolution should suffice. It is noticeable that in Europe, where there is universally a standing committee of supervision, this provision for an *internal* appointment of special inspectors is not found in the law, except that in Switzerland any members have by the law the right to call upon the controllers (or auditors) to examine and report upon anything considered suspicious; this right cannot be supressed or restricted either by the articles or by a resolution of a general meeting; a somewhat similar provision is found in the Italian Code of Commerce.

Right of demanding Government Inspection.—Sections 82, 85 of the Indian Companies' Act provide for the appointment and powers of Government inspectors upon the application—in the case of companies limited by shares—of members holding not less than one-fifth of the shares, or, in the case of a company not having a share capital, of members not fewer than one-fifth of the whole number on the company's register.

If this provision of the law is not to be a mockery to shareholders, it must be altered. There is a Madras Town loan Fund with nearly 20,000 shares and above 3,000 members; under the law, if suspicion, however well founded, were to arise, at least 600 persons would have to sign a petition for an inspection, an almost impossible feat, since probably few persons would be sufficiently aware of the facts or sufficiently hold to sign, especially as the expenses of an enquiry are leviable from the petitioners; even in the mofussil there are societies with above 800 and 1,000 members. Nor does such proportion seem called for in the case of co-operative or provident or benefit societies. In the case of trading companies it may be very important to cast no slur or even suspicion upon its soundness or its credit, but when is it a question of the security of the members and the safety of their little deposits, the risk of undeserved suspicion is small compared with the risk of loss to the members. Moreover, as seen in the case of the Birkbeck Building society or bank, an unreasonable run on the bank, which it was fully capable of meeting, was an excellent advertisement, as showing its soundness and the liquidity of its assets. Similarly an inspection, if found to be causeless, is no bad advertisement for a society, in that it promotes confidence by giving a certificate of soundness.

In Europe, though the committee of supervision is by law a universal necessity, there is provision for demanding extraordinary inspection; in Italy, the Code of Commerce (1883) enacts (1) that members holding one-tenth of the capital may call upon the auditors (committee of audit) to examine any matter of doubt, and report thereon to the general meeting which must decide upon the report; (2) that members holding one-eighth of the capital may, if they have good grounds for suspecting the directors and auditors, of serious irregularity, state the facts to the Commercial Court, which, after

hearing the other parties, may decree an examination of the company's books and the appointment of examiners at the petitioners' expense; if the inspection finds no cause for suspicion, the report is published; if the contrary, any urgent steps are taken by the Court, and a general meeting at once convoked. In Germany, Austria and Hungary, members representing one-tenth of the capital have the power to demand from the Commercial Court the appointment of special inspectors for the examination of the company's affairs, or of particular facts. In Rhode Island (U.S.A) any *three* persons, shareholders, officers, or creditors of a bank or of a Savings bank may petition the Governor of the State and obtain of right a special commission with full powers of examination. In New York, Florida, &c., any creditor or shareholder of a bank, having an interest of £200 therein, may make an affidavit to the Circuit Court, an obtain, if thought fit, an examination by a commissioner into the affairs of a society for the purpose of ascertaining the safety of its investments and the prudence of its management; the report is to be published. In New Jersey the chief of the State bureau of statistics of labour and industries must, upon the written request of any five members of a co-operative society, cause an examination of the books and affairs of the society to be made, and a correct statement thereof rendered to each member of the society. By the English Friendly Societies' Act (1875) the Registrar has power to order an inspection of a society's affairs upon the application, supported by evidence, of one-fifth of the members or of 100, if the society has between 1,000 and 10,000 members; the examination is to be complete, and sworn evidence may be taken. An important point is that the Registrar may order the expenses to be borne by the society, if thought fit. It is significant that, whereas, in the Industrial, &c., (Co-operative) Societies' Act of 1876, the provision made was similar to that in the Friendly Societies' Act, the new Act of 1893 provides (1) that the Registrar may, upon the application of any ten members, each of whom has been a member for at least twelve months, appoint an accountant to inspect the books of the society and to report thereon, provided that the applicants shal d posit such security for costs as the registrar may require, such costs being thereafter payable either by the applicants or by society, or by its officers &c., as the registrar may determine; the report of the accountant is to be communicated to the society; (2) that upon the application of one-tenth of the members, or of 100 if the members number above 1,000, the registrar may appoint inspectors to examine the whole affairs of a society, call a special meeting, &c.: the inspectors to have full power to inquire upon oath.

There is no similar provision in the Building Societies' Act (1874) and its absence has been much felt: a Bill of 1893 consequently embodies the above provisions of the new Co-operative Societies Act of 1893, and adds a third, viz., that the Registrar may, if the sworn evidence of only three members discloses facts which seem to call for investigation, appoint an inspector, but with the previous consent of the Secretary of State (*See* the provisions of the new Act (1894) *s.v.* 'Building Societies,' p. 191 *supra*). The Savings Bank Act (1863) does not provide for this, but that of 1891 provides a standing inspection committee, for which see below *s.v.* 'External supervision.'

It is further to be noted that the Indian law does not provide for the appointment of inspectors except upon the application of "*members*"; creditors, including depositors are not considered. This is a serious omission; the laws of the United States of America as given above provide for creditors, and in the case of Savings banks, which it is hoped will spring up in India, it is the depositors who are the persons to be considered; there will probably be no "members," and if, as in the case of the Italian, Swiss and American Savings banks, there is a share capital, it is insignificant as compared with deposits.

It seems clear that the Indian law should be made more elastic; the word "members" should be amplified into "members or creditors"; the proportion of members entitled to call for inspection should be lessened; the other cognate provisions, *e.g.*, of the Co-operative Societies' Act of 1893 or the Building Societies' Act (1894) should be embodied in the Indian law, and the powers proposed for creditors should be exercised by persons who are owed or who have deposits of a moderate amount to be fixed by law.

Publicity.—The Indian law contains some provisions on this point; a company must have a registered office, with its name duly affixed outside; its designation must be entered on its seal, on its bills, cheques, official papers and advertisements, &c. Banking insurance and all deposit, provident and benefit societies must put up in their offices every half-year, a statement of capital, assets and liabilities; companies without shares must send a list of directors to the registrar. All companies must prepare an annual audited and certified balance sheet, lay it before a general meeting, and send a copy to the registrar. A register of members with their addresses and occupations, the number of shares taken, of calls made and received, &c., must be prepared each year at least, and kept in the office, open to the inspection of members gratis, and to the public on payment of a small fee; copies must also be given on demand. A register of mortgages of the property of the company must also be kept and be open, under penalty for omission, to the inspection of any creditor or member.

It is also provided that the articles shall be printed, and a copy sent with the memorandum of association to the Registrar of Joint Stock Companies; also a copy of all special resolutions, and a copy of the order of a Court and minute effecting a reduction in capital A copy of the annual register of members and summary relating to capital and shares must also be sent to the registrar, and various other particulars relative to changes in

capital and number of members. In the case of liquidation, a copy of the order for winding up and of the final order for dissolution must be sent to the registrar.

The above are the chief methods for providing for publicity in the case of Indian companies, and it will be seen that the provisions afford no particular assistance to the public or to the members in the way of insuring that a company has been started on a sound footing, and is being soundly worked. It is not even provided in the law that a copy of the balance sheet shall be sent to each member, nor that it shall be published in any journal; nor is there provided any inspection as to the methods of working or to ensure that the balance sheet truly represents the position of the company.

The European law provides generally for publishing in the official gazette and in various newspapers a notice of the formation of a society, its memorandum of association either in full or in abstract, and various other matters including the annual balance sheet. In the state of Indian mofussil society this provision seems to be useless, the more so, that—in the case, for instance, of the balance sheet—there is nothing to guarantee that it is a genuine one except the certificate of the auditors which may be and often has been as worthless as the balance sheet, with, possibly, sham or dubious assets, a paper reserve, and sham dividends. All the publicity hitherto mentioned, including that of the European method of journalistic publication, is almost useless if there is no guarantee that what is published is correct. The following section deals with actual external supervision, necessary to provide a fair certainty that a bank is working soundly, and that its figures, as published, are correct figures.

External Supervision.—No special external supervision is provided by the Indian law, except that already noticed, viz., that certain documents must be registered in the office of the Registrar of Joint Stock Companies. The officer has no supervising powers or duties assigned to him by law; he is a mere registering officer, and each year has merely to send a simple tabulated statement by way of report to the local Government The local Government may make such regulations as it thinks fit with respect to the duties to be performed by the registrar, but it is presumed that this means merely that the Government can make regulations according to which the registrar shall perform the duties assigned by the Act, not that the Government can impose upon the registrar duties not expressly assigned by law, and thus develop the Act, *e.g.*, such duties as those of inspection, arbitration, suspension of disobedient or negligent societies, &c., which are exercised by the English Registrar of Friendly Societies and by State officers throughout the United States and Europe. Supervision in this presidency, therefore, is practically *nil.*

Yet it is in the direction of supervision and control by the executive, or by Courts otherwise than in their judicial capacity, that modern legislation tends for all societies, while for all societies that deal with popular thrift, providence, benefit, banking, credit, and insurance, supervision has in all countries always been exercised by the State; this supervision is steadily tending to greater development even in England and America, while experience has just produced a very stringent law in Germany. It can hardly be contended that while State supervision tends to develop in Europe and America, where liberty of commercial as of other action is the popular claim, where the people are more or less accustomed to free and joint action in business matters, and are sufficiently educated in business matters to look more or less after their directors and representatives, and where publicity through a universal press is comparatively complete, such supervision is absolutely unnecessary in a country where joint business action is in its veriest infancy, where organized thrift, banking and credit are practically unknown, where the *clientele* will be the peasants and petty traders of the country side, and where the press is only beginning its usefulness. It is assumed, then, that some form of external supervision is necessary and will be provided. That supervision may be non-official or official.

The former is that of Unions of societies. As co-operative or benefit societies advance in numbers and development of plan, they usually co-ordinate the scattered and weak units into groups, and these again into a general Union. The popular banks or loan societies of Germany and Italy are complete examples of this, and Unions exist in England among the co-operative societies. But they require no special law for their promotion: they are merely societies having minor societies as members. But the German law of co-operative societies, based upon the facts of co-operative credit in that country, recognizes these Unions in connection with their special duty of supervision and inspection; its provisions are as follows:—

"51. The organization of every society and its management in every branch must "be submitted at least once in two years to the examination of a competent auditor, not "belonging to the society.

"52. When societies belong to a Union, the latter will, if it complies with the follow- "ing conditions be granted the right of appointing the auditor.

"53. The Union must have, as a distinct object, the inspection of the societies which "belong to it, and may also otherwise watch over those of their interests mentioned in "section 1, especially the maintenance of mutual relations between the societies. " (Section 1 describes the economic objects to which co-operative societies devotes themselves, "*e.g.*, credit, production, distribution of raw and manufactured materials, the purchase "of agricultural, &c., implements, the acquisition of houses, &c.)

"54. The objects of the Union, must be entered in its articles, which must show "that the Union is likely to be able to carry out the business of audit. The local area·

" of the Union, the number of societies which it will receive as members, must be men-
" tioned, as also stipulations regarding the selection and appointment of auditors, the
" nature and limits of their audit, the formation, place of business, and powers and
" duties of the directorate and other organs of the Union.

" 55. The right to appoint auditors is granted by the federal council when the
" Union extends over several federated States; otherwise by the central authority of the
" State. Any modifications of the articles of a Union must be communicated to the autho-
" rities having jurisdiction as mentioned in the preceding sentence.

" 56. The directors of the Union must, every January, send the articles with a certi-
" fied copy of the Government order granting the right of appointing an auditor, and a
" statement of the societies forming the Union, to the Courts within the jurisdiction of
" which the several societies have their place of office, and also to the chief authorities
" who have jurisdiction over the place of office of the Union." (The Courts are those
" which keep the register of societies and are the same as those which keep the commercial
" registers, *i.e.*, usually the Commercial Courts. These Commercial Courts and com-
" mercial registers are peculiar to Continental Europe. *See* section on 'Courts.' The
" 'chief authorities' mentioned in this section and in 57 and 59 are designated by the
" Government: in this presidency it would probably be the Collector of the district.)

" 57. The general meeting of the Union must be held solely within the limits of the
" Union. Notice of such meetings with a copy of the programme, must be sent at least
" a week in advance to the chief authorities both of the district in which the Union holds
" office, and of that in which the meeting is to be held. The latter authority has the
" right of sending a representative to the meeting.

" 58. The right of appointing auditors may be withdrawn from the Union—

" (1) If it is guilty of acts contrary to the law by which the common weal is en-
" dangered, or if it follows other objects than those mentioned in section 53.

" (2) If the Union is unable to fulfil the duty of audit, such withdrawal is pro-
" nounced, after hearing the officers of the Union, by the authority which granted the
" concession, which should at once inform the Courts mentioned in section 56, of the
" withdrawal.

" 59. When societies do not belong to a Union, the auditor is appointed by the Court
" (*see* note in section 56); in such case the society may demand the nomination of the
" auditor. The appointment is made after the chief authority of the district has given
" his opinion regarding the person proposed; if such authority concurs with the society,
" such person should be appointed.

" 60. (Contains rules regarding the fees payable by each society to the auditor).

" 61. The directors must allow the auditor the inspection of all the books and papers
" of the society, its cash its negotiable paper, and its goods in stock. The committee
" of supervision should be invited to assist in this audit.

" The directors must send for entry on the register of societies, a certificate by the
" auditor that the audit has taken place, and must forward the report for discussion and
" resolution at the next general meeting, at which the committee of supervision must give
" any explanation on the results found. The auditor appointed by a Union, must send
" to the directors of the Union a copy of his report.

" 62. The Chancellor of the Empire is authorized to issue general orders for the
" drawing up of the audit reports "

Such is the German law, which regulates the audit and inspection of co-operative societies by Union inspectors; it is inserted partly to show the care with which the German law endeavours to ensure that the external audit which it enacts shall be genuine and thorough, by competent experts appointed by a central society, whose special business is that of auditing and inspecting its component societies; if Union audit is wanting the auditor must be appointed by the Commercial Court on the nomination of the society to be audited, coupled with the approval of the chief officer of the district. These rules should eventually be adapted for Indian use, to stimulate the formation of Unions and their adoption of this useful rule; direct official audit and examination are open to objections, and are less satisfactory than thoroughly competent inspection by experts who, though independent of each individual society, are necessarily interested in its soundness and well-being, since it is a member of the Union to which the inspectors belong; nor does such inspection give that official *imprimatur* to the society which a Government inspection popularly bestows and which is best avoided if possible. It is however impossible that these Unions can be formed until the societies which are to compose them have been in existence for some years; meanwhile, since external supervision is desirable some other method must be adopted in order to safeguard the nascent societies and their members. This method can only be that which is universally found necessary; viz., that of official supervision with inspection and audit according to circumstances.

Official Supervision.—This form of supervision is the most common and takes every form from the demand for mere returns to an actual control, it being axiomatic that, where societies deal either with the land or with matters of popular thrift and providence, the legislature must provide close supervision, since, in the one case, the stability of the greatest industrial class and the welfare of the greatest national industry are liable to be affected by defective or usurious land credit, provided possibly by mere land grabbers, individual or organized, while, in the other, the development of some of the chief national and individual virtues, such as thrift, foresight, self-help, and mutual help, is bound

up with the proper conduct and safety of the institutions. The independence of Government support shown by the German and Italian popular banks is only an apparent exception, for, in the former case, the banks are very closely regulated by a special law based on lengthy and wide experience, which provides incessant supervision by the Commercial Court and even—as in the case of audit—by local authorities, and in the latter the societies are not only most thoroughly supervised and organized under the foresight of their illustrtous founder, Signor Luzzatti, but they fall under the jurisdiction of the Commercial Code which, passed in 1884, has expressly provided for the various classes of co-operative societies, which in Italy are considered to hold within them the germ of economic, social and moral progress. Moreover, the Italian Minister of Agriculture, Industry and Commerce is expressly charged with the general supervision of the several classes of banks.

The Italian rules applicable to trading companies in general, irrespective of the special rules for particular classes, such as banks, land and agricultural banks, insurance companies and savings banks, are worth mentioning in detail.

In the first place, the promoters of every unlimited company must send their deed of association and articles and subscription lists, including a notice of the share reserved for themselves, to the Commercial Court having jurisdiction, which enters all particulars in the commercial register, and posts up the memorandum in the Court room, in the Municipal hall, and on the nearest exchange. The deed of association and the articles of limited Companies must similarly be sent to the Civil Court which is bound to see whether the company has been lawfully formed and, in consultation with the Government Pleader (coll, intervento del publico ministero), registers and posts up the above papers. Similar particulars, in abstract, must also be published by the company in the Journal of law notices and *in extenso* with other connected documents (prospectus, contracts, &c.) in the official bulletin of share companies. All extensions and modifications of the company's objects, articles, &c., must be similarly notified. The appointment of directors must be notified to the Commercial Court by a document duly signed by them; and, in case of suspected irregularity, members holding up to one-eighth of the capital may move the Court to order an examination of the company's affairs by special examiners appointed for the purpose, who report to the Court, which can decree any necessary measures. The resolutions of general meetings may be carried to the same Court by any member who considers them contrary to the law or memorandum or articles of association, and the Court may hear and dispose of the matter. Credit companies must deposit in the Commercial Court in the first week of every month a statement certified by at least one director and an auditor, of their position during the previous month. The balance sheet of every company, must, after it has been passed by the general meeting, be sent to the Commercial Court, together with a copy of the auditor's report, and of the minutes of the general meeting for entry on the register and for publication—balance sheet only—in the 'Journal of law notices' and 'Official bulletin of share companies.' In the case of co-operative societies all publications are free of charge, but directors are required to send a special quarterly statement of the members, with their addresses, to the Commercial Court. A Government regulation prescribes the forms of the registers and other administrative matters. It will be seen that the Commercial Court occupies the position of the Registrar, but has also very considerable powers in certain cases for the protection of members, and demands very important returns. This, however, is not all; by the Government regulation, the "official bulletin of share companies" above mentioned is placed under the Minister of Agriculture, Industry and Commerce, who must publish it at least once a week. In this must be published not only the papers above mentioned, but all notices regarding the issue of debentures for public subscription, the monthly statments required—as mentioned above—from credit societies, the copy of the balance sheet, the deed or order—if appointed by the court—of appointment of liquidators, the final balance sheet of the liquidators together with the auditor's report, and any other matters specially ordered. Every company pays a fee of 80 lire (£3-4-0) for the publication of the Memorandum and Articles of Association, and 30 lire (£1-4-0) for every other document; co-operative societies are exempt from these charges. Every publication must take place within fifteen days of its receipt, and a copy of the bulletin must be sent free to the various Chambers of Commerce, Exchanges, to all the Civil and Commercial Courts of the kingdom, and to each company concerned in any particular issue. The Minister also lays down the forms for the monthly statements required from credit societies. It will be seen that the above Minister is required to look very closely into the affairs of the societies, and to publish very considerable returns and statements for general information. For special societies, such as insurance companies, land banks, &c., the Minister has much greater powers; in the former case he should satisfy himself every three months by means of Inspectors, who must examine the books, that the provisions of section 145 of the Commercial Code and sections 55, 56 and 57 of the regulations are thoroughly carried out, and the Inspectors are bound to prosecute criminally any infraction of those sections, which provide for the investment in State paper of at least one-fourth of the premia received.

It should be noticed, also, that in common with all business entities (commercianti), companies must, by law, keep certain books (day-book and copy-book), and make an annual inventory in a special book of all their movables and immovables with a statement of profit and loss; these books must be presented, before use, at the Commercial

Court, or to the Mayor, or before a notary, who must number and sign every page, and on the last page enter the number of pages, and the date of the entry; each year the day-book must be similarly presented for countersignature immediately below the latest entry. The Commercial Court keeps a register showing the names of all commercianti who have presented their books, the nature of the books, and the number of pages in each; this must be compared with the books at the annual countersignature. The mayors and notaries who have acted as above, are required to send annually a note of their transactions for entry in the Court register. The books kept as above must be written up without blanks, interlinations, marginal corrections, or erasures, and every correction, where necessary, must be so made that the original word or figure shall be legible. Other rules are laid down, but the above suffices to show the supervision maintained over commercial matters and books.

The Commercial Courts have, as such, been recently abolished, but their duties are carried on by the Civil Courts.

One further reason for State supervision, in the matter especially of land banks, is that these banks are universally financed by means of land-mortgage debentures; as these are placed in open market, it is necessary both for the success of the banks and their operations, and for the safety of the investing public, that these debentures shall be solidly and unexpectionally secured. Hence the unusual provisions of the English Land Mortgage Debenture Acts, and the action of European Governments generally.

It does not appear that official supervision can be adequate or definite without legislation. Even if rules framed by overnment provided for supervision, such rules would require a legalized basis which does not exist in the present company law, while it is well that societies should know beforehand the general limits within which Government will exercise its powers of supervision, inspection and control. It will be well to lay down in the law the general scope of supervising action, and to issue thereon a body of detailed rules. Full details of official supervision will be found in the section on 'Government supervision' under each class of society; the following remarks merely give the outlines of the more important modes in order to suggest precedents and methods for adoption in this Presidency.

Registration.—The Indian law provides a sort of supervision by insisting that no association of more than ten persons shall carry on the business of banking, and no association of more than 20 persons shall carry on any other business which has gain as its object, unless it is registered as a company under the Act, or is formed in pursuance of some other Act. This is copied from the English Act (1862) which with its amending Acts, is the general English law of association. By this general law publicity is to a certain extent provided, for the articles, balance sheets, &c., must be sent to the Registrar, who reports on them to Government; in this way, the position of a company becomes to some extent public. But the English Friendly Societies' Act (1875), Industrial and Provident Societies' Act (1893), Building Societies Acts (1836 and 1874), Savings Banks Acts (1863 and 1891), provide registration in another office for the classes of society mentioned, and by far the greatest number of all such societies (more than 30,000) in England and Wales are so registered under those Acts. Such society *may* be registered at the office of the Joint Stock Companies' Registrar. But registration at the Friendly Societies' office is almost universally chosen, for though it results in the supervision of the Registrar—whereas there is positively none under the Joint Stock Registrar—, there are several privileges attached to it. Moreover societies are aware that publicity develops public confidence; a society known to be under supervision, with its returns under scrutiny and annually published in a report accessible to all, and with the liability of having to undergo a minute inspection by expert examiners should a moderate proportion of the members move the Registrar to that end, attracts public confidence and consequent membership, far more than a society which, by declining publicity, hints that it has something to conceal. Indeed it is a standing difficulty, even in England, that Government supervision or even audit gives to a society in the popular mind, a species of Government *imprimatur* which it is desirable to avoid; one seriously urged objection to Government audit is the responsibility, real or supposed, thereby thrown upon Government. It appears however, that the disadvantages are far outweighed, at least in the early stages of progress, by the advantages.

The nature of the Registrar's supervision will be dealt with below.

The Indian law compels all societies of every description to be registered under the Companies' Act, except societies for non-lucrative purposes. As shown in the previous pages, the Act is unsuited for co-operative societies, and is defective in its provisions in many ways. It would be well to draft a fresh law for all Co-operative Mutual Societies, whether for land or other credit or for mutual assistance, or for deferred benefits, such as provision for marriage, sickness, &c., for guarantee business, &c., and require them to register under such Act which should provide full supervision as in the English and American Acts. Ordinary land and other credit companies would register, under the Companies' Act, but modifications are required for the due working of special companies, such as provisions for the issue of debentures, for audit, and for supervision.

Supervision of Land Credit Banks.—Apart from the State banks which, of course, are controlled by Government, these are generally the provincial land banks, which are Mutual Associations, and the ordinary Joint Stock Land Mortgage Banks. The former, especially the older ones, are in Germany largely under Government surveillance; *e.g.*,

that of Pomerania is controlled by the Minister for the Home Department, and supervised by a Royal Commissioner, who presides at the meetings of the society; the appointment of the manager and council by the members is subject to Government sanction. The resolutions of the general meetings, except such as affect mere internal arrangements, are subject to the approval of Government, without which they are invalid. Even the ordinary Joint Stock Land Mortgage Banks participate in this supervision, especially in Middle and South Germany where a State Commissioner supervises the administration in general, with a power of veto in case of illegality or irregularity; moreover, it is only by special Government concession and under certain conditions as to capital, &c., that they may issue land-mortgage debentures, and this concession involves considerable direct supervision to ensure the absolute security of the debentures. In the Central land bank (joint stock) founded in 1870, the appointment of the managing directors is subject to Government sanction, while a Government commissioner supervises the operations of the society and countersigns all land debentures; he is paid by the bank.

In Austria all banks or joint stock companies of whatever kind are subject to State supervision; their rules must be approved by, and their balance sheet submitted to officials appointed to examine them. The Austrian Boden Credit Anstalt is founded on the lines of the French Crédit Foncier; its governor is appointed by the State, and the sub-governors by the Minister of Commerce an imperial commissioner also supervises operations, controls the issues of land debentures, which he countersigns, and watches over the due observance of the articles.

The Hungarian Boden Credit Anstalt is similarly and closely controlled by a Government commissioner, but enjoys certain special privileges; it is an exceptional institution.

The Land Banks of Italy are supervised by the Minister of Agriculture, Industry and Commerce, by means of inspectors, and are bound to send in regularly the resolutions of their boards; the Minister has the power of annulling such resolutions as are contrary to the law or the articles. The banks are also bound to send in every two months a financial statement; also an annual balance sheet and statement of mortgages; each half-year a tabular statement regarding the position of each individual loan must be submitted, so as to check the position of the land debentures. Every week a privileged society must publish in the official gazette and in a newspaper a statement of its operations. The inspectors make an examination every two months of the acts and the books of the bank; they must be present at the meetings of the committee of supervision, forbid all unauthorized acts, and all issues of debentures beyond the amount of loans granted, verify the receipts to be set apart for the sinking fund, supervise the drawings of the debentures which are to be paid off, &c.; their salaries fixed by the State are paid by the banks. This is but an imperfect sketch; the laws of the "Credito Fondiario" and the rules which supplement them are full of the duties of the Government department, for which the section on land credit must be consulted.

The duties of the land registrar in England have been mentioned above, *s.v.* 'Debentures'; suffice if to say that every land debenture and all the documents and contracts on which it is based must be submitted to and registered by him, and quarterly statements showing the securities held by the company, and the number and value of the debentures outstanding. The registrar is responsible for the due conduct of the society in this matter, and for the equilibrium between its securities and its debentures.

Supervision of Ordinary Banks.—It will suffice here to take the provisions of the United States as examples of State supervision; it is commonly supposed in India that in the United States of America the policy of the State is that of non-intervention, whereas, in fact, societies, especially banking corporations, are *réglementées* in a high degree and not without success.

The National banks, which are banks of issue and exchange, are strictly regulated both by law and by the supervision of the Comptroller of Currency. This officer represents the Government, and reports annually in great detail to Congress as provided by section 10 of the law.

His duties and powers are great and various; he registers the articles and memoranda of association, and it is only on his authorization that a bank may begin business, for which he must see that the articles are in order and that 50 per cent. of the capital has been actually paid up, that the directors genuinely own the prescribed number of unpledged shares, and that all the other conditions for business are satisfied: he may withhold his certificate if he is not satisfied with the *status* and apparent objects of the bank. Any increase of capital must be notified to the Comptroller, who must fix the maximum amount allowable for such increase; and it is only on his permission that a bank may redeem its capital. A reserve equal to 20 per cent. of the capital is compulsory in certain cases, and the Comptroller can close any bank that does not comply with this condition, or which allows its reserve to be deficient. He has very important duties and powers regarding the note issue and circulation. In the general regulation of business his duties are equally important; he can wind up with the consent of the treasury, any bank that does not keep a proper reserve of cash to meet its notes and deposits: he can appoint a receiver to close up business if, within three months after notice from him, a bank which has not paid up or has impaired its capital, has not made the amount good by a *pro rata* assessment on its shareholders; a sworn list, with addresses, of all shareholders must be annually sent to him; not less than five reports of condition must be sent to him in each

year upon forms to be prescribed by him, verified by the oath of the president or cashier, and attested by three directors; such reports to show the complete assets and liabilities of the bank and to be published in a local newspaper; the comptroller can also call for special reports whenever he deems necessary. The amount of each dividend as declared, and of the net surplus in excess of the dividend, must also be reported upon the oath of the president or cashier, the object of this being to prevent the payment of dividends from capital; all these reports are under heavy penalty for failure or delay. One of the most important duties however is the appointment of examiners to inspect the condition of each bank; these examiners, who are experts and numbered 30 in 1891, have power to make a complete examination of a bank and all its affairs, and to examine its officers and agents upon oath; they are paid by the banks on a fixed scale, and report to the comptroller. The inspection is rather an examination of the methods than an audit of the accounts, viz., to see whether the bank is doing sound business and complying with the requirements of the law as indicated in the previous sentences, but audit is not neglected; every examiner is required to verify every credit and debt balance, to count the cash, and to list and verify the loans and discounts and other assets. They also ascertain the character of and security for the loans, and whether the directors or officers, &c., have too large a share of the loans; it is, in fact, on the examination made by these officers that the comptroller is able to supervise the working of the banks and to detect any infringement whether of the law or of sound methods of trade. The comptroller has also large duties in the case of liquidation and failure, especially where banks have made default in the matter of their notes, when he may at once appoint a receiver who will take possession of the bank. A bank may also be closed, upon a suit by the comptroller in a competent Court, for any wilful violation by the directors and officers of the provisions of the law, but this power has never been used; the penalty is too severe.

The treasury has also certain powers for fiscal and other purposes over these banks.

It will be seen that the National banks are under the complete control of a Government officer, not in the actual working of the bank, for which the directors are wholly responsible, but in restraining it from going beyond or disobeying the law, and in preventing unsound business. No doubt this control is due partly to the fact that the banks were started to supply a market for national securities which are deposited by the banks as guarantees for their note circulation, and to ensure sound and solidly based paper currency instead of the miscellaneous paper which had fallen into discredit, but it will be seen below that in the matter of *all* banking, savings, and benefit corporations, the United States are extremely vigilant and impose stringent official supervision. This supervision is moreover paralleled in Continental Europe by the official supervision over land and agricultural credit banks, and in England by that of the registrar of Friendly societies over all provident, benefit and co-operative associations, and by the treasury, through the same registrar and through a new inspection committee, over Savings banks. In fact every special class of credit or deposit society is officially supervised, especially those relating to the land or to national thrift and providence. In Continental Europe, moreover, as, for instance, in Austria and in Italy, all banks and even all joint stock societies are largely under supervision.

Ordinary banks are in the United States of America governed by the laws of each particular State. In New York the banking laws provide a department charged with the execution of the laws; the powers granted are so considerable as at first to excite surprise in an English reader. Under the recent law of 1892 every bank without exception, *i.e.*, every corporation (society) or person receiving deposits, making loans, discounting bills, &c., is under the supervision of a highly-paid superintendent appointed by Government, his pay and that of his establishment being provided by *pro rata* contributions from the banks. The superintendent appoints paid and expert examiners, and is bound to examine or cause to be examined every bank at least once in a year (Savings banks once in two years) or as much oftener as he thinks fit. "On every such examination inquiry shall be made as to the condition and resources of the corporation, the mode "of conducting and managing its affairs, the action of its directors, the investment of "its funds, the safety and prudence of its management, the security afforded to those by "whom its engagements are held, and whether the requirements of its charter and of law "have been complied with in the administration of its affairs; and as to such other "matters as the superintendent may prescribe." Examiners have full powers to compel the appearance of and to swear "any person whose testimony may be required." The report of the examiners may be published in the newspapers.

In the case of impairment of capital the superintendent may require the bank to make good the deficiency, and he has powers to enforce his demand under penalty of a suit for insolvency. If the examination above described give reason to suspect that the bank is unsound, the superintendent may at once take possession of the property and business pending the disposal of a suit as above. A similar suit lies against banks which refuse to submit to examination, or which have violated their charter and the law of the State. In this last case the superintendent has also power to direct the bank to discontinue any such unlawful practice or unsafe method of doing business; failing obedience a suit may be filed.

Any creditor or shareholder of a bank, holding debts or shares to the amount of £200, may apply to the Supreme Court direct for an examination of the affairs of the bank.

Every bank must make a sworn quarterly (for Savings banks half-yearly), report to the superintendent in such form and on such matters as he may prescribe; failure involves a penalty of £20 per diem, and failure by a bank for two successive reports entails forfeiture of its charter, and compulsory winding up. Moreover, on any failure to report, the superintendent is bound at once to make an examination of the books and affairs of the bank. An abstract of their reports must at once be published in at least one newspaper in Albany, and the full report of each bank in a newspaper of its place of business or in the nearest newspaper.

The superintendent makes a full annual report to the legislature. The law further lays down provisions for the restriction of certain operations, for the calculation of profits, for the making good of losses, &c.

The superintendent has numerous other duties and powers, such as the registration of certificate of incorporation giving all particulars as to the location, capital, shareholders, &c., of the bank; power to require a bank to make up its "reserve of lawful money" under penalty of being declared insolvent; the right to receive a deposit of at least £200 to meet penalties or assessments imposed on the bank; the power to bring a suit for any penalty or assessment, &c.

In Rhode Island the governor of the State appoints three commissioners to superintend the organization of every new bank until the entire amount of capital has been fully paid up; these commissioners are paid by the bank. On written request by any three officers, shareholders or creditors of any banks or Savings banks, the governor shall appoint a special commissioner with power to make a complete examination under oath of all the affairs of the bank, and the general assembly of the State, or the governor when the assembly is not sitting, may, whenever it is deemed expedient, institute a similar commission for similar purposes; heavy penalties are enacted for any refusal to aid the commissioners. If the commissioners complain upon oath to the Supreme Court that any such bank is so misconducted that there is danger of loss to the public or depositors, the Court shall hear both parties, and if necessary, suspend the bank officers and appoint a receiver to wind up affairs. In Massachusetts the governor, with the advice and consent of the council, appoints three commissioners to supervise Savings banks, co-operative loan associations and banks. These commissioners must examine every such institution at least once a year and as much oftener as they please; they must thoroughly examine all accounts and affairs, ascertain the condition of the corporations and their ability to fulfil their engagements and whether they have complied with the law. If necessary they may apply to the Supreme Court which has, in such case, similar powers to those mentioned, *s.v.* Rhode Island. The State may make other regulations for the management of these corporations.

In Illinois (Chicago) the recent Act of 1887 provides that a society can only transact banking business after an examination by the State auditor and receipt of his certificate; that a list of all shareholders and of all transfers shall be furnished to him; that at least once in three months, the State auditor must call for a report of assets and liabilities which is to be furnished on oath and published in a newspaper; that the auditor shall appoint, at least once a year, experts to thoroughly examine and report upon the affairs of the bank; that the auditor can, if the capital of the bank be impaired, file a bill for the appointment of a receiver if the capital is not replaced in thirty days.

In Florida the Judge of the District Court may appoint a commissioner to examine the affairs of a bank upon the sworn information of any creditor or shareholder who may have an interest of £200 in the bank. At any time "the comptroller of the State may "inspect and supervise the business of the bank, and inspect and examine its books, "papers, documents, minutes, and everything pertaining to the acts of the bank. A "statement of the amount of the capital stock subscribed, and of the amount actually "paid in, and the indebtedness of the corporation, must be published once in six months "in the nearest newspaper, and annually in a newspaper printed at the capital of the "State. Banks are required to make an annual return to the State comptroller of the "amount of capital stock; value of real estate; shares of stock held, absolutely or as "collateral; debts owing to the bank; debts owing by the bank; claims against the bank, "not acknowledged as debts; amount on which the bank is bound for security, or may "become liable; amount of loans and discounts and specie on hand; amount of losses "of the bank (if any) charged, and of dividends declared since the last statement; amount "and description of securities deposited with the comptroller, and their market value, "also date to which interest has been paid."

The above paragraphs sufficiently show the nature of the control provided by law over banking corporations in some of the principal States of North America and the laws of other States, *e.g.*, New Jersey, Connecticut, &c., are not dissimilar.

Supervision of Friendly and Co-operative Societies and Savings Banks.—This group of societies which relate solely to popular thrift, providence and self-help, and embrace millions of members and hundreds of millions of capital and deposits, are naturally the object of considerable State supervision. It is these societies and their congeners, the co-operative or popular banks, which lay themselves out to develop the essential virtues of thrift, providence, self-help and co-operation by providing secure depositories for petty savings, and which invest those savings largely in popular credit. Any serious failure in the security offered and any loss of public confidence would be injurious, not merely to the institutions but to the system, and not merely to the system, but to the habits

which the system was iniended to develop. Hence it is, that in every country the welfare and securitv of these societies is the solicitude of the State. In the report of the Massachusetts Board of Commissioners of Savings banks for 1892, the attention of the legislature is expressly called to the danger of allowino trust companies and even National banks to solicit savings deposits. They observe that the Savings banks have rightly been placed very completely under the protection of the State, by a policy broad in scope, careful in detail, and strong in an intelligent supervision; this policv has been highly successful and it is claimed by the commissioners that the system ought not to be impaired and the habits of thrift discouraged, by allowing institutions less rigidly supervised, to enter into competition with the Savings banks, especiallv as such institutions are merely commercial societies struggling to increase their business and dividends. The nature of this system will be found in detail, *s.v.* ' Savings banks.'

In England the Lords of the Treasury are entrusted with the general regulation of these societies, but the actual executive work is done under their approval, and in accordance with their regulations, by the Registrar of Friendly societies. The duties of this important officer, who is always a barrister with large legal and economic knowledge, are briefly summed up in the following extract from the Guide book of Friendly, &c., societies:—

" The chief public functions of the registrar (without here distinguishing those which are reserved to the chief registrar) fall under the following heads:—

" (*a*) Registering or otherwise recording the rules, and generally the leading events " in the life of the societies with which he has to do (Savings banks excepted).

" (*b*) In some cases, chiefly under the older Acts, certifying that rules are in con- " formit- with the provisions of the special Acts, or with law generally.

" (*c*) Receiving and enforcing the sending of the various returns required by law, " and in most cases keping such returns when received.

" (*d*) Giving official copies of documents in his custody.

" (*e*) In certain cases determining upon disputes, either generally, as in the case of " Savings banks, or under specified circumstances, in the case of societies under the " Friendly Societies Acts, the Industrial and Provident Societies' Act, and the new Build- " ing Societies' Acts.

" (*f*) Prosecuting for various offences under particular Acts, or in some cases for " fraud or misapplication of the funds of societies, or, in some of the latter cases, authori- " zing prosecutions by members.

" (*g*) In some classes of societies, authorizing changes of name.

" (*h*) In some classes of societies, exercising, on the application of a definite min- " ority of members, a limited amount of interference with societies by (1) inspections; (2) " the holding of special meetings; (3) if need be dissolution of the society.

" (*i*) As respects some classes of societies, giving directions for the transfer of certain " securities.

" (*k*) As respects some classes of societies, with the approval of the treasury, pre- " paring and circulating model forms, circulating useful information, and constructing " and publishing certain tables.

" (*l*) In one case only certifying for exemption from rates.

" (*m*) Reporting yearly to Parliament.

" But it forms no part of the functions of the registrar—

" To advise members or officers of some 30,000 different bodies as to the best mode of " carrying on their business, or as to their legal rights or remedies;

" To interfere of his own motion in the management of such bodies;

" To overhaul their accounts;

" To compel them to follow good advice, or prevent their going to ruin with their " eyes open.

" It cannot be too strongly insisted on that the registrar cannot ensure the good " management of societies, and that the mere fact of registry affords no guarantee that a " society is solvent or even honest.

" But registry affords, to the sensible and honest, valuable help towards good manage- " ment in many ways, and it does also bring to bear upon the incapable and the dishonest, " various checks which are wholly wanting in respect of unregistered bodies."

(*b*) On (*b*) it is to be remarked that, in practice, the rules are carefullv examined to see if they are in conformity with the law, and workable, and any inconsistencies or palpable absurdities are pointed out; this practice is for the convenience of the societies.

(*c*) As to the returns it is to be noted that they are to be prepared in the forms prescribed by the treasury regulations or by the registrar, and not in any form that a society pleases. Among these returns is the annual balance sheet which must have been duly audited, together with the auditor's report, and a statement as to who the auditor is, if he is not a treasury auditor. A copy of the quinquennial valuation (Friendly societies only) must also be sent to the registrar.

(*h*) The inspections mentioned in this paragraph are made under the orders of the registrar upon the application of one-fifth of the members of the registered society, or a smaller proportion if the society is large; the examination is held by special inspectors

who are appointed by the registrar and have full powers of inquiry. Under the Co-operative Societies' Act of 1893, the registrar can order an examination of the *books* on the application of only ten members.

The registrar only awards dissolution upon the application to him of one-fifth of the members (or a less proportion if the society is large), alleging that the society cannot meet its engagements, and that its contributions are insufficient. The registrar may then cause an investigation to be made, for which full powers of inquiry are given to him. Dissolution, if awarded, can only be set aside by a suit in Court.

As regards Trustee Savings banks in particular the new Act (1891) establishes a central committee of inspection which appoints inspectors to examine the books and accounts of the banks, and to ascertain and report whether each bank has complied with the law and with its own rules as regards its accounts and the conduct of its business. Should the report be unfavourable, the committee report the matter to the National Debt commissioners, who may close the account of the bank or report the matter to the Treasury with a view to obtaining from the High Court the appointment of a commissioner for full enquiry.

The committee may further require a bank to make complete rules for audit; in default may themselves draw up such rules and submit them to the registrar for his certificate.

As regards Savings banks, the functions of the registrar are two only, viz., the certifying of the rules and the determination of disputes between trustees or managers and depositors; these disputes must be referred to the registrar who has full powers of inquiry. The annual balance sheet of each bank is sent to the National Debt commissioners, who may also from time to time require a detailed statement regarding the expenses of the bank.

It may be noted that the inspection committee discovered many instances of negligence in the very first year of their inquiry.

The loan societies under the Irish 'Charitable loan societies' Act of 1843 are peculiarly supervised; a board is established called the 'Loan fund board' consisting of members nominated by the Lord-Lieutenant, who also appoints the paid secretary and staff. The board is not paid, the members serving gratuitously like the trustees of Savings banks. The board has the superintendence of all loan societies under the Act, and has power to ascertain whether these rules have been duly certified and enrolled (by a consulting barrister), and are duly observed and whether their funds are duly applied. No society can be started under the Act unless the board is satisfied that it is required: the board may cut down salaries and expenses, and demand security from officers of a society; it may demand accounts, and it receives annually, and oftener if it sees fit, from each society; a complete statement of its position, assets and liabilities, profits and losses, in such form as the board may require. The board receives of right, notice of an intended dissolution, and may, if a loan society has not adhered to rules, withdraw its certificate and order its dissolution by its own liquidators, subject only to appeal to the Lord Lieutenant in Council. The board reports annually direct to Parliament.

The co-operative and Savings banks of the United States of America are still more fully supervised by Government officers. As stated above, New York has a special department under a superintendent to whose inspection and supervision every Savings bank is subject. When a Savings bank is to be founded, a copy of the proposal must be sent to the superintendent, who enquires whether the proposed bank is necessary, whether the population of the locality gives a good chance of success, whether the proposed members are men of trust, &c. If he is not convinced on these points, he may withhold his consent. It is forbidden to invest the deposits in any but Government, State or Municipal bonds, in first mortgages on cultivated lands and buildings up to 50 per cent of the sale value, and up to 65 per cent of the bank's deposits; loans may also be given on the deposit of securities. It is the duty of the superintendent to see that these and other provisions of the law are not transgressed. To this end half-yearly reports with the fullest details regarding deposits and investments, and certified by the trustees must be sent to him based upon an obligatory half-yearly audit by a committee of the trustees; he must also examine each bank at least once in two years, and oftener if he pleases, such examination being of the most rigorous description (see *supra s.v.* 'Ordinary banks'); in case of any violation of the law, or mismanagement which would endanger the funds, he can file a suit to close the bank or to remove the trustees. He reports annually to the legislature with such proposals as he thinks fit regarding the administration of the banks. The pay of his department is provided by a levy from the banks in proportion to the deposits.

The methods of supervision in Massachusetts, viz., by three State Commissioners of Savings banks have been partly described *s.v.* 'Ordinary banks,' and will be found in full in the chapter on 'Savings banks'; their powers are similar to those of the superintendent in New York. The law also gives the commissioners power to prescribe a proper method of keeping and auditing the books, while the details prescribed by sections 40 and 41 of the annual reports by the banks to the board are so full as to give a complete view of the position of each bank, its members, accounts, deposits and other liabilities, the exact amount and nature of its investments under every head, its profit and loss account, its cash in hand and dividends, its rates of interest and the amount of loans at each rate and of various values, its expenses, and many other details.

As regards co-operative banks for which each State provides special laws, some of the arrangements for supervision are as follows. The law of New York provides that every co-

operative bank shall annually make a full report of its affairs, under penalty, to the superintendent of the bank department; such report to be made upon oath and in such form and to contain such statements on the affairs, liabilities and resources of the bank as the superintendent may prescribe. The superintendent may also call for any further reports upon the condition and methods of business in the bank. All co-operative banks are subject to the inspection at all times of the superintendent or of his deputies, upon the application of three or more members, and in case of ascertained mismanagement, he may direct any necessary amendment; in case of disobedience, he shall move the attorney-general to proceed against the society as though insolvent. All inquiries are conducted with the same powers and processes both as regards witnesses and documents as in the ordinary Courts; all expenses must be paid by the bank. In Massachusetts the law prescribes that commissioners of Savings banks shall, for co-operative banks, perform the same duties and have the same powers as in the case of Savings banks.

In Italy the Savings banks, also all co-operative land and agricultural credit banks, are under the supervision of the Minister of Agriculture, Commerce and Industry, who has a special department for the " Service of the supervision " of such banks, which send in returns, as prescribed by him, from which are drawn up his monthly and annual bulletins, and the annals of the several classes of institutions.

Suggestions.—In legislating in India for classes of societies as yet unformed or in their infancy, it is open to the legislature to impose their own conditions, for there are no vested interests, no trade customs to be affected. Hence the law may prescribe, as conditions of existence, modes of control, supervision, and administration which would be difficult to impose newly upon a working system or network of going concerns. It may be better to provide, within reasonable limits and perhaps permissively, even more restrictions than may be at once needed in practice, rather than be compelled to add continually fresh rules and amendments of the law. The practice of other and very free and advanced countries such as England, the United States, Germany, &c., show that very considerable powers of interference are not only possible, but advisable and practicable, where such powers are worked with tact, and solely for the welfare of the companies and their members Only, care must be taken lest the law fetters rather than restrains, or stifles while protecting. In this country there seems a *consensus* of opinion that Government interference should be more rather than less, and however unwilling to add to Government burdens, and Government interference, and however anxious to promote self-help, it may well be that in moderate Government supervision and control will be found the best methods of promoting self-help; *aider à faire* seems to be a necessary method rather than *laisser faire*; freedom of action does not necessarily result from the absence of Government. Societies expressly complain that they are left to grope in the dark, and are either ignorant of or acquire painfully the elaborated ideas and methods which the supervision of Government would suggest; they would welcome supervision moreover, because they feel that their subscribers and depositors are hindered by timidity and distruct, whereas a Government inspection would give them that *imprimatur* of security and status which is necessary to the development of business. Hence in proposing powers of supervision by Government officials, it has been sought to introduce methods, which, though they do not at present exist in India, and though they might be resented by great Indian commercial banks or societies, are all found in greater and more advanced countries, and for societies which are numbered by tents of thousands with millions of members and crores of millions sterling in funds, but which all deal with poor people, possessing little cohesion or power, and little ability or initiative to prevent or redress injury.

The question as to the department or officer who in Madras should exercise official supervision over rural banks and co-operative societies generally, as also the methods which should be adopted, are elsewhere discussed. Suffice it here to suggest that legislation is necessary to give the department or officer due powers of control, inspection and supervision, and that such legislation should take somewhat of the following form.

Provision should be made by law that the local Government should appoint or designate the authority (hereafter called for mere convenience the Commissioner) who should have the supervision of all land and agricultural credit banks working in the mofussil, of all co-operative or mutual credit or loan societies, of all provident or benefit societies, and of all Savings banks other than Post Office Savings banks; that all such societies should be registered in his office, that their articles and changes therein should be similarly registered after examination and certification as to their legality by the commissioner, who should have advisory powers in the case of unwise or unworkable rules, and prohibitory in the case of illegal rules; that all such societies should be required to submit periodical returns of their assets and liabilities, capital and reserve, land mortgages and debentures, profit and loss, at such periods, and in such form as might be laid down by the above commissioner with the approval of Government; that the commissioner should have power to compel the keeping of proper accounts and the making of a proper and efficient audit; that he should by himself or by examiners, inspectors or auditors, have power to examine and if necessary to report upon to Government, but not necessarily for publication, the methods, affairs, books and accounts of any such society; that on such or any inquiry he should have power, in case of proved mismanagement or fraud, to move the Civil Court to wind up the society or appoint a temporary receiver, or remove the directors, and that he should also be authorized to prosecute in the Magisterial Courts for any fraud or other criminal offence, which might come to his notice during his inquiry

or otherwise; that upon the application of one-tenth of the members, or of 100, if the society has more than 1,000, supported by a solemn declaration and if deemed necessary, the depositing of security for expenses, an examination as in the previous sentence, should be obligatory, the report on such examination being made to the general meeting, and a copy being sent to the local Government; that he should be entitled at any time, or upon the application of any ten members, depositors, or other creditors of a society, to order an examination by an expert of and a report upon the books and accounts of a society; that upon similar application the commissioner should have power, if he deems fit, to summon a special meeting of the society; that the commissioner should, by consent of both parties, be permitted, but not be bound, to arbitrate in person or by delegate in disputes between the society and individual members, in which case he should exercise the powers of a Civil Court, but should not be bound by its procedure; that disputes as to the right to deposits or funds whether in savings, co-operative or benefit societies to the value of Rs. 500 should necessarily be referred to the commissioner or his delegate, whose decision should be final, with permission to the loser to file a suit in the ordinary Courts, but only against the successful claimant, and that no claim to such funds should be entertained by a Civil Court without the production of the decision of the commissioner; that he should have power, if he deems fit, upon application by a proportion of the members, such as one-tenth, or 100 if the society has above 1,000 members, to investigate the affairs of a society with the view to winding it up, in which case he would exercise the powers of a Court of liquidation, such application to be based only upon loss or insufficiency of funds to carry on the society, or upon mismanagement by the directors or trustees, such as to endanger the funds of the society or of the public; that the commissioner should be bound to report annually to Government on the condition, affairs and operations of the various societies under his supervision, with suggestions for the amendment of the law; that he should publish quarterly statements (bulletins) of the operations of all credit societies and Savings banks from the returns prescribed and received by him; that penalties should be leviable for refusal, neglect or delay by the societies to furnish any returns or reports; that the commissioner should be bound to collect and publish information on the subjects of banking, credit, co-operative, and provident societies, to prepare and issue for the information and optional use of societies, model forms of accounts and documents, annuity and amortization, &c., tables, and, when possible, life tables; and generally that he should, by advice and information, assist societies in their formation, registration, management and union, and especially in making provision for audit by Union or other inspectors, or auditors other than the official examiners.

It should be understood that the word "commissioner" is used simply as a convenient term to indicate the supervising authority, who might, however, be some existing officer, such as the Director of Agriculture, while the authorities for the examination of the affairs, &c., of societies might be special examiners or inspectors under his control; on the other hand, the authorities for the settlement of disputes and claims might be the local Revenue officers, and the authorities for liquidation the ordinary Courts who might be moved by the commissioner through his inspectors. These details should be settled by the rules to be issued by Government.

Penalties.—Should the law provide any or all of these additions regarding supervision, penalties will have to be prescribed for disobedience or negligence in all cases not already provided for by the Penal Code or by the Companies' Act.

Privileges.—Before proceeding to discuss the question of "privileges," it must be reiterated that organized credit will not necessarily, in itself, produce any miraculous improvement in the conditions of indebtedness; credit by companies has its advantages, chief among which are probable freedom from deliberate attempts to cheat the borrower—though not always the creditor or depositor—and to exploit his ignorance and need, together with correctness of accounts and possible cheapness of loans; but it has also its disadvantages such as—in general—inaccessibility to the poor and small men, want of knowledge of their status and consequent refusal of or dearness of loans; mechanical rigidity of rules; inability ordinarily to postpone instalments in time of the borrowers' need; want of that humanitarian sympathy which even lenders often feel; while, if really cheap and facile, it is apt to seduce thoughtless borrowers into extravagance and crushing indebtedness. And while, on the one hand, banking facilities possess the great advantage of attracting and utilizing individual and small deposits which would otherwise be infructuous, they have also the disadvantage of causing by mismanagement and fraud, financial disasters, which not only bring widespread and irreparable loss, but are destructive of public confidence in joint stock or co-operative principles. It is of no advantage to a borrower merely to exchange an individual lender for a lending machine; it is not certain that the credit will be cheaper on the whole, and it is easier to deal with an individual than with a soulless corporation; nor is it certain at all that cheaper credit is, under every circumstance, better for borrowers. Credit too facile is as ruinous as when unduly dear, and may only end in deeper embarrassment. The object in fact of this study is not so much mere organized cheap and facile credit, but safe and well-regulated, educative, and even protective credit; organization is desirable and should be privileged just in so far as it promotes the *best* and most lasting interests of the people; special privileges simply to promote the transfer of business from individuals to companies are unnecessary and probably undesirable. Privileges however, which assist men to organize locally for self and mutual help, to learn, by actual practice, the true use both of money and of credit,

to develop fruitful thrift, educative credit, and industrial improvement, and to replace the money-lending individual by the mutual and mutually protective Association through the natural development in men of innate qualities and existing, if dormant, possibilities, are privileges which should be granted.

Hence in considering privileges, it is entirely a matter of argument whether they should be granted to credit societies simply because their credit is "organized"; not merely is there the danger that privileges will be abused—as in the English loan societies under the Act of 1840, some of which are mere unions of petty usurers who have taken the name of societies to get the privileges granted by that Act—but there is the risk of undue interference with and possible prevention of development on co-operative lines; and still further, of substituting for the local individual who is open to fears and human sympathies, a distant mechanical corporation, careless of the object and results of the debtors, borrowing, inaccessible to fear or human feelings, and operated by men who, however, humane in themselves, are, *quâ* office holders, mere agents of a body which asks only for dividends, for punctual dividends and for larger dividends. These are not mere theoretical fears; the building and loan societies of England have often lent themselves to fraud and usury of the worst type; the petty banks of Switzerland are often as hard in their dealings as the petty capitalist, or peasant landlord, is all over the world; there have been, perhaps are, Indian societies which are mutal or popular banks in their title only, and privileges have been sought by inchoate joint stock associations which might have made the peasant into a mere producer of dividends as the rack-rented tenant-at-will of a corporation.

It is also to be remembered that privileges are sought in India by proposed joint stock banks to be formed by syndicates of *lenders* (capitalists), who demand very extensive privileges, including the hitherto unheard of privilege of a previous settlement of the debts by Government, and thereafter complete independence of Government, except when they wish to use the Revenue officers as their own bailiffs. Now the land credit history of Europe, which is quoted as a precedent, shows that but few privileges are granted generally, and those either to associations of borrowers, *i.e.*, mutual associations, which work not for dividends, but for mutual aid, and which in fact do not make or divide profits, or else to Government institutions; the associations of capitalists have but rarely many privileges, and on the contrary, are highly taxed. All associations moreover are more or less placed under Government control or supervision in return for, or even in the absence of privileges, and where privileges are granted, as for instance to German joint stock banks and to the Crédit Foncier in the issue of privileged land debentures, the supervision is very considerable indeed; supervision is a corollary of privilege. Still further, it must be noticed that the privileges are often necessary in Europe in consequence of circumstances and to remove disabilities which do not exist in India; *e.g.*, in England, land improvement companies get privileges necessary to surmount the difficulties of the peculiar land tenure of England; the Prussian Landschaften (which are mutual societies) were intended to support the aristocratic landholders who were ruined by wars; the Hungarian Boden Credit Anstalt (also mutual, without dividends, and with only a small foundation capital on fixed interest) would have, without its privileges, immense difficulties in taxation and procedure; the Crédit Foncier of France, the only instance where an association of lenders is considerably privileged, is not only a quasi-Government institution, superintended, at all events, by officers appointed by Government, but requires a special procedure to obviate the otherwise insuperable difficulties arising, in the case of a central institution, from the civil law of the country. In other cases the banks, *e.g.*, in Austria, are granted privileges, because they are connected with Government finance, or, as in the case of the Rentenbanken, so often quoted, were started by Government as political necessities, to enable the peasants to pay off by small annuities the commuted value of ancient feudal disabilities and charges which had prevented them from being free man in actual fact. No Government has yet ventured to grant special privileges to ordinary independent joint stock banks merely to deal with peasant indebtedness, which is at least as severe in Europe as in India, and probably far severer. Similarly, the stamp duties on commercial paper that are removed or alleviated by French and Italian privilege are often not met with, or, even when reduced, are still higher than similar duties, in India; *e.g.*, the *privileged* stamp duties on the debentures of the Credit Foncier are far higher then the corresponding Indian stamp duties. There is no succession duty as a general rule in India; the Indian income tax is far less wide in its grasp than in Europe, while its weight, of incidence is trifling as compared, for instance, with the corresponding Italian tax (13.60 per cent. and now (1894) to be increased) on "la richezza mobile" or the Austro-Hungarian tax (5 per cent.) on earnings. The expensive and circuitous methods of the ordinary civil law, as distinguished from the procedure under the commercial law, are nowhere more trying than in Europe; those countries which are under the Code Napoleon and its copies, or draw their jurisprudence from the Roman law, are burdened with "hypotheques" which render organized (company) land credit impossible without a special form of "purge"; it is actually impossible in some countries to advance money on movables "sans déplacement," for the law does not recognized pledge without actual delivery of the goods pledged, so that it is impossible to lend on gathered crops in the barn or on the stock of the farm; in France and some other countries every registered mortgage deed has to be registered afresh every ten years, so that the land and some other banks have to be given a special privileged freedom from this decennial registration, which, of course, does not exist in India.

Hence, in considering the claims for privileges, it is necessary to discriminate very carefully the classes of bank to which privileges may be granted, and the exact necessity for such privileges. In the present section, only those privileges which require legislation will be dealt with.

Nevertheless, as will have been seen, every class of bank dealing with the special subjects of this study has, with one great exception, been granted privileges of some sort or other. The exception is the co-operative loan societies, the German law for which (1889), is full of careful regulations—in themselves a privilege, as tending to compel sound business—but contains no actual privilege. These are the most successful loan societies in the world, and the absence of any privilege is noteworthy; their history, a history of public-spirited self-devotion of far-sighted and prudent foundation and management, of steady perseverance, of growth carefully fostered by reformers of action and of business capacity, explains this fact; privileges are of far less importance in matters of local effort than public spirit displayed in action, than faith in one's self, in one's ideas and in one's fellows.

The privileges granted have been occasionally, but very rarely, financial in the shape of an endowment, permanent or temporary, and usually small; a guarantee (very rare) and the use of the Government treasuries for the deposit of funds (equally rare); they are generally fiscal or legal; and will be found mentioned in detail under the several classes of bank or society. The financial privileges need no legislation, but merely an order of Government; fiscal and legal will not be mentioned.

Fiscal.—The Indian Companies' Act requires registration of the company, fees being chargeable on a sliding scale. For a company with a capital of only Rs. 20,000, the charge is Rs. 40 or 0.2 per cent., if Rs. 50,000, Rs. 100; this is a very heavy initial charge upon a small company; the English Act charges only £1 per thousand or 0.1 per cent. up to £5,000. In the United States of America there is in some States, *e.g.*, Pennsylvania, a charge of 0.25 per cent on the capital of every company, but in the case of co-operative banks, which is the name very properly given to Building societies in another State, viz., Massachusetts, this charge is expressly waived. In the case of the Friendly and Co-operative societies of England, registration is free, and there is a charge of only £1 in the case of Building societies, and £1-1-0 for loan societies and Savings banks. On the other hand there are charges payable on various occasions, such as on applications for inspections, on awards in disputes and for dissolution, &c., for which *see* another appendix. It is suggested that in the case of all mutual, co-operative and provident societies including Savings banks (as defined in the section on Savings banks) a single fee of (say) Rs. 10 shall be levied irrespective of capital, while for all miscellaneous registrations, acts and duties of the registrar, Government should be empowered to lay down the necessary scale of fees or to remit such fees.

The stamp duties on the memorandum and articles of association are, respectively, Rs. 15 and Rs. 25. The Italian Code following the English laws regarding Building societies, exempts the above from all stamp and registration charges in the case of co-operative societies. The stamp duty may be remitted in the case of co-operative and agricultural societies and Savings banks.

The old Building Societies' Act of 1836 exempted all mortgages from stamp duty; this was amended in 1871 by an Act exempting only mortgages by members of the society, and for sums not exceeding £500. There is no such exemption for Building societies incorporated under the Act of 1874, which are much the most numerous and important. In this class of society, mortgages are however all discharged without reconveyance by simple endorsement on the original bond. It would seem advisable for the encouragement of these mutual and co-operative societies to reduce the stamp duty on mortgages executed to them by their members only, *e.g.*, by entire exemption for documents up to Rs. 20 and by a reduced and uniform rate of 4 annas per 100 rupees, instead of 8 annas as at present. Releases should be universally and necessarily made by endorsement on the original bond with a receipt stamp of 1 anna, and should be registrable at reduced fees.

In Europe the land mortgage debentures of the various land credit banks are specially chargeable with a reduced stamp duty. In France the personal (nominatif) debentures of the Credit Foncier pay a stamp duty of 0.05 per cent *annually*, and a transfer duty of 0.5 per cent on actual transfer, while debentures to bearer pay 0.2 per cent also annually but without any transfer duty. It will be remembered that these are "privileged rates" as compared with those of ordinary debentures. In England debentures are charged at 0.125 per cent if personal, with a duty of 0.5 per cent when transferred, and 0.5 without transfer duties if to bearer. If the debenture becomes in India, as elsewhere, the chief method of financing land and even agricultural credit banks, the stamp income from this wholly new class of documents on perhaps crores of rupees per annum, will be very considerable: at 8 annas per Rs. 100, the duty on a crore would be Rs. 50,000. All mortgage debentures in India pay 0.5 per cent. on issue; the same at transfer, not however exceeding Rs. 5. If these debentures are to be popularized, a consolidated rate on issue paid by impressed sheets or by composition with Government, and a transfer by simple endorsement on a one-anna adhesive label if of Rs. 20 or upwards, would seem a suitable arrangement; it is very important to simplify and cheapen transfer, if the documents are to be readily marketable. Transfers by endorsement might even be free of duty as in the case of similar transfers of bills of exchange or promissory notes. It does not seem advisable

to lower the percentage rate of stamp duty on issue, since it is proposed to abolish transfer duties; in fact a 1 per cent rate without any charge at transfer would seem not undesirable on all land mortgage debentures, since the State will have to bear considerable charges in the matter of supervision, and since they will be exempted from registration; even at this rate they will be immensely favoured compared with even the Credit Foncier debentures; *e.g.*, the French debenture to bearer pays during its average life of (say) thirty years not less than $0.2 \times 30 \times 6$ per cent. as transfer duty alone.

These debentures do not seem to be exempted from registration by clause " ff " of section 17 of the Registration Act. That relates only to debentures of the ordinary English commercial type secured by or based on a registered instrument by which a company has conveyed its property or an interest therein to trustees for the benefit of the holders of the debentures. The mortgage debentures known as " obligations foncières " are those proposed in this study; these are secured by a charge on the whole mass of securities, capital, &c., held by the company, and are issued on the credit of the company, special precautions being taken by Government that the debentures are more than covered at any given time by the existing mass of securities; the place of the trustees is taken by the Government officers who supervise the issue of the debentures, *e.g.*, the governor appointed by the State in the Crédit Foncier, or the Government commissioner in the German, Austrian and other land banks. The England Land Mortgage Acts are similar, the land registrar there taking the place of the trustees. It is important to free these securities from the formality of registration; issued as they will be by a society, and under strict supervision, the chief reasons for registration are absent, while it seems practically impossible to register documents of only a few rupees in value issued at irregular intervals, except at an inadvisable and prohibitory cost in time, money and trouble. The function of the registrar in attesting the genuineness of a document can be served by issuing impressed and printed sheets of a peculiar character and with a special water mark; the issue registers of the society would attest the nature, value, &c., of the debenture in case of dispute, or they might be detached from a counterfoil; the value of each debenture might be expressed upon it as in a Government promissory note.

The above clause of the Registration law should now be enlarged to include land mortgage debentures of this class by words as follows: " or any land-mortgage or agri-" cultural debentures issued by any company empowered to issue such debentures under " any law expressly providing for such debentures; or, &c." The word " agricultural " is here used to cover the case of debentures similar to the (" cartelle agrarie " or " buoni " di tesoro dell ' agricoltura " of Italy; *see* the general section on ' Debentures.'

There are various petty exemptions from stamp duty in the English Friendly, Co-operative and Loan Societies' Acts, but it is not proposed to grant these, as they are not of great importance. It is right, however, to mention that the English loan societies under the Act of 1840 are exempted from stamp duty as regards the notes of hand, receipts drafts, or any instrument " whatever " required to be made under the Act or the rules of a society. The Irish Act of 1843 is more explicit still, expressly exempting all debentures issued by a society as well as all other instruments or documents whatsoever. It is to be recollected that the societies contemplated by these Acts were " charitable " or friendly; the English Act, however, does not so limit the societies in words, and the result has been unfortunate in letting in groups of usurers to the benefits of the Act. These exemptions should only be allowed where a charitable loan society is found to be a necessity by the controlling authority, which in Ireland is the ' Loan fund board ' established by Government; in this country it would be the commissioner elsewhere mentioned.

The exemption in 15 (*h*) of schedule II of the Stamp Act, appears to provide the necessary exemption for entries in the deposit pass-books of loan societies and Savings banks.

Income Tax.—Any exemption from income-tax, if granted at all, should apply only to mutual or provident societies, including of course Savings banks. There is neither precedent nor reason for exempting, as has been demanded, ordinary business companies trading for profit from contributing to the revenue simply because they may produce a secondary benefit to their *clientéle* in supplying a credit cheaper and possibly less dangerous than the credit supplied by money-lenders; railway companies are not exempted because they supply cheaper, better and possibly safer communication than the bullock cart which they replace, and because they develop a much needed trade and enormously raise the values of agricultural land.

There seems, however, no necessity to exempt any class of credit societies from income tax in this country; the tax is very light and some charge must be made for the cost of the supervision which is proposed, and which, in every other country, is paid for in addition to taxes far more serious than the corresponding taxes—if such exist at all—in this country. Moreover it is clear that mutual credit societies such as the popular and co-operative banks of every description, have it in their power to reduce their income tax to a minimum by simply reducing the rate of interest paid by borrowers whenever profits begin to be appreciable; this indeed is one of their chief objects, viz., the supply of cheap credit, and a co-operative society which has large profits deserves to pay an income tax, since it is, *ex hypothesi*, failing in its object, and is clearly exploiting borrowers for the sake of investors, or is tending to the position of an ordinary trading company; when an income tax of any serious amount is leviable it is a sign that the cost of credit should be reduced as soon as a sufficient reserve has been accumulated. Exemption from

income tax would also tend to an abuse of the name and idea of co-operation; small partnerships of money-lenders or capitalists would unite under the name of a co-operative loan society in order to avoid the tax. The only classes of society in other countries which are exempt from income tax are those Friendly societies in England which assure annuities of less than £30, and co-operative societies so long as they do not sell to non-members, and the number of shares is unlimited. There are also the two Hungarian mutual societies which are exempted from the "Tax on earnings," a tax twice as heavy as the Indian income tax, and one which runs into many thousands of pounds for a single institution. The European co-operative and popular banks, and even Savings banks (Italy), are subject to the taxes which correspond to or take the place of the income tax. All joint stock banks and even the German Landschaften are equally liable to this tax. In the United States a recent (1893) Bill has introduced an income-tax and has applied it to co-operative banks; the final result is not known.

An indirect reason, moreover, why the income-tax should be retained is, that the Collector of the district is, by the Act, required to assess all companies; he thus has an opportunity to examine very closely and personally the balance sheet of each society, and the items that compose it together with any necessary accounts (sections 11 and 12). Though the results of income tax examinations are confidential, the balance sheets of companies are not, so that though a Collector might not be justified, except in the case of detected frauds, in taking any action on the information gained from the accounts, his actual inspection of the balance sheet would give him much useful insight into the position of the banks, while the knowledge that the Collector must himself make the examination and might require the accounts would be a useful deterrent.

Legal—Registration of Documents.—This subject is dealt with in a special chapter (*q.v.*). But it is suggested here that registration charges might be made less onerous as regards documents issuing in the transactions of mofussil banking societies, especially in those of small value; releases should certainly be registered at the lowest possible rate in order to encourage their registration, so that encumbrances not in existence might not apparently burden a property.

Other Privileges.—In the Trustee Savings Bank Act there is a peculiar privilege worth considering for similar banks in this country, viz., that if any officer entrusted with money or goods of the bank dies, or becomes bankrupt or insolvent, or has any execution, or attachment or process issued against any of his property whether movable or immovable, his executors, assignees or creditors or the sheriff or other officer executing the process shall be bound, within forty days after demand made by two trustees of the bank, to pay over all monies or other goods belonging to the bank, or any monies due to the bank received by such person in virtue of his office, before any other of his debts is satisfied, or before the money due upon the execution or process is paid over to the creditor. This privilege makes the Savings bank a first creditor for all such dues even against a prior Court decree. It may be compared with the provision for similar banks in New York; in that State, Savings banks may place 10 per cent of their deposits in accounts current with ordinary banks, provided that such 10 per cent does not exceed 25 per cent. of the capital and reserve of the receiving bank; should such receiving bank become bankrupt, the Savings banks are treated by law as preferential creditors to the full amount of their deposits.

Savings banks,—*i.e.*, banks of petty deposit with a limited maximum, in which the trustees and managers obtain no profit from the use of the funds, though possibly they may receive a fixed honorarium, and though the Savings bank may have a guarantee capital bearing a *fixed* interest—and also genuinely mutual co-operative banks, might in this country be granted a similar preferential lien upon the property of their debtors by way of trust or deposit as distinguished from their ordinary *clientele* of borrowers; such privilege to be granted by express order of Government in each case upon due proof that the institution falls within the definition of a Savings bank proper or of a mutual co-operative bank.

A notable privilege is that given in certain European (Continental) countries to the debentures of land banks, viz., their freedom from liability to legal attachment. The Italian law of 1885, section 19, says distinctly "the land debentures (cartelle fondiarie) and the interest thereon are not attachable (non sono sequestrabili)." Similarly in France, section 18 of the law of 1852 regulating the Credit Foncier enacts that no opposition (even it would seem by order of Court) can be made to the payment to the holder of a debenture of either its interest or principal; it is in this sense, "insaisissable;" the society is bound to pay the holder notwithstanding any opposition, except in the case of loss or theft of the debenture, and then only it would seem if notice of the loss, &c., has been given to the society. It is obvious that, with this privilege, the debentures are likely to bear a high market price, and this is in fact the case.

The above privilege is not unique; a similar one is granted to shares in co-operative (mutual) banks in the United States. The law of New York provides that 'all accumula-
" tions upon shares in said association held by any person shall be exempt from execu-
" tion and proceedings supplementary thereto to the amount of 600 dollars," *i.e.*, no Court decree can be executed upon such shares except as regards any excess above 600 dollars (£120). This principle is one generally recognized in the United States, and is especially visible in the Homestead law; viz., that no person shall be so stripped either of movables or immovables, even by the action of the Courts, that he shall be a destitute

outcast, without hope of a fresh start, without a roof to shelter him and with the prospect only of State relief as a pauper, or of casual work as a day labour. It does not appear however that this exception extends to demands for Government taxes; it is an exemption from Court decrees for debt.

In the case of Savings and co-operative banks there is an additional reason for legalizing some such exemption as in the American co-operative banks, especially in an undeveloped country such as India, viz., the encouragement of deposits and shareholding in such banks. If it were a provision of law that savings either in the shape of deposits or shares in these particular classes of banks up to the amount of (say) Rs. 100 or even Rs. 200 were exempt from attachment for debt by decrees of Court, there would be an immediate flow of funds to them which would go far to solve the financial difficulties attending small and rural credit banks, while the habits of fruitful thrift, of confidence in the deposit of funds with banks instead of in the house wall, and of local administration, would receive a vast development. It is for consideration whether this exemption may not now be added to section 266 of the Civil Procedure Code.

Transmission of shares and deposits.—The expected societies, even of the co-operative types, will possess a capital divided into shares, and will receive deposits; to those shares and deposits there will be numerous claimants by succession, and much litigation, or at least much cost to heirs in establishing their claims, will be the result; for, as the law stands, the societies must, for self-protection, decline to transfer shares or pay over deposits except to persons producing a certificate of heirship or an order of Court, at all events where any dispute or rival claim exists or is probable. The Indian Companies' Act has no provisions regarding transmissions, and schedule A, article 12, merely provides that only executors or administrators of a deceased member shall be recognized by the company; in other words, heirs must take out probate or letters of administration if they desire to succeed to the deceased's property. Now societies, especially of the several benefit and co-operative classes, are necessarily comprised of a great number of poor members and depositors; it is impossible for such people to execute wills or to go through the legal formalities attending succession. Hence the English law has provided admirable rules for "Provident nominations" treated as testaments, and for "small intestacies;" the Friendly Societies' Act (1875) and the Industrial and Provident (Co-operative) Societies' Act (1876 now 1893), the Trades Union Act, as amended by the 'Provident 'nominations' and small Intestacies Act (1883) and the Loan Societies Acts of England and Ireland (1840 and 1843), in a smaller degree, provide that adult members (above 16 years of age) may nominate persons to whom their shares or deposits may be transferred at their decease, provided the amount at credit or payable does not exceed £100; such nomination is always revocable or variable during life, and must be entered in a special register. At decease the society must pay the amount or transfer the shares or their value to the nominee. In case of members entitled to an interest not exceeding £100, dying intestate, the managing committee must decide upon the person entitled by law to receive the amount, and shall then pay such person without requiring letters of administration. All such payments are valid and effectual against any demand made upon the society, or upon the committee, but shall not bar any claimant from his remedy at law against the person who may have received the money. No stamp duties or fees are leviable in any case.

Similar powers of nomination and distribution of intestate assets are granted in the case of depositors in Savings banks. In the case of Building societies the amount is only £50, and no power of nomination is granted to members or depositors, but only the power of distribution of assets by directors in case of intestacy.

The provisions of the several laws be found in another appendix; similar provisions should be made for the case of members and depositors in Indian benefit and co-operative societies and Savings banks, the limit being fixed at Rs. 500 or less; precautions would be required for the registration of such nominations in a register to be kept and attested by the directors; no stamp duties should be required.

Privileges in securing Loans.—Promoters of proposed banks claim various privileges not provided by the ordinary law for the safety of loans secured by mortgages; these may be discussed as follows: (*a*) the grant of priority to the bank's claims; (*b*) the "purge," a postponement of claims not brought to the bank's notice where priority is not grantable *de jure;* (*c*) provision for declaring loans to be binding on co-sharers; (*d*) modification of the Revenue law of sale of land for arrears free of encumbrances; (*e*) alteration of section 66 of the Transfer of Property Act; (*f*) changes in the law of registration; this last will be separately discussed (*see* 'Registration.').

(*a*) *Priority of the Bank's claims.*—As already remarked, a bank is not necessarily a panacea for the ryots' credit difficulties; it is a mistake to suppose that credit will become an instant blessing, merely because it is organized. Facile credit, incurious of the use to which the loan is put, may be only a curse leading the ryot into greater extravagance, just as greater security of tenure and increased land values may easily lead the ignorant into heavier indebtedness; hence to give a bank this extraordinary privilege merely because it is a bank, would be a grave error. The claim amounts to this, that when A, a private lender, has advanced, say Rs. 75 upon land worth Rs. 100, the borrower would be able to go to a bank and borrow Rs. 75 more, which the bank could safely lend because its loan would take precedence of A's loan; consequently the value of A's loan would be reduced practically to nothing. No such injustice could be allowed, a

foolish injustice, moreover, for private lenders would, as a mere precaution, raise their terms, and as banks cannot hope to supply ryots fully for scores of years, the condition of the ryot and the cost of credit would be far worse than now, just as the Prussian landowners were the more miserably burdened by Frederick the Great's attempt to relieve them through an arbitrary edict suspending for three years the payment of interest on land debts. Probably the private lenders would combine into so-called " banks " which would possess the greed and hardness of the individual lender without his elasticity, personal qualities and fears.

The demand would not be noticed had it not been expressly put forward in this presidency (Papers in G.O. No. 1324, Revenue, dated 1st December 1884), while answers to questions put for the purpose of this report have contained a similar demand. The demand is " that the advance made on the security of lands by this bank should have priority over other encumbrances except that of Government dues. " The claim here is simply that the bank should forcibly be made first mortgagee without any regard to prior mortgages, and without paying off such claims. The fact is that the promoters have not understood that mere loans " on the security of lands " have no special title to precedence, while loans made " for the improvement of lands " have, for the reason, that in the latter case the security for the prior loans is positively increased by the improvement loan, and this security increases as the improvement loan is paid off. Accordingly it is found that the laws of all countries grant priority, even over prior mortgages, to loans granted solely for and actually laid out upon an improvement, and *to no others*. To land improvement banks only, or to such loans of other banks as are *bonâ fide* laid out on land improvement, could such privilege be given, and as it would be impossible to distinguish land improvement loans by an ordinary bank from its other loans, it follows that priority *de jure* can only be given to the loans of mere land improvement banks. For the grant of this privilege, *see* ' Land Improvement banks.'

(*b*) *The " Purge."*—This convenient French term expresses the mode by which a person acquiring immovable property, ascertains and, if desired, gets rid of prior encumbrances or privileges subsisting on the property. Under the Civil Code the purge has two results; a purchaser or acquirer—for the power is not given to mere mortgagees—can free his property from all " hypothéques " (charges, liens, privileges, &c.), which burden it, and can also bring to light all unknown charges which might subject him to loss. The former result is obtained by paying off, after due notice, all registered claims up to tre amount of the price to be paid by him for the property which is then freed from all such encumbrances; for the purge of unregistered claims notice is given to register, failing which within a given date, the property is absolutely freed from all such claims.

As regards land Credit societies, however, which, in France, is the Crédit Foncier alone, it is simply the means by which the society, as mortgagee, assures itself of the security of its particular mortgage over all those liens or rights which are called " hypothéques légales."

As regards the bulk of ordinary " hypotheques " an examination of the deeds and a search of Registration office registers is sufficient; most " hypothéques " must now be registered, and full publicity is a mere question of indexing (*see* ' Registration ') or of a proper " livre foncier " or land register. But it is not obligatory to register what are called " hypothéques légales," *i.e.*, charges arising out of the law, *e.g.*, the claims of wives, minors, and incapables, and the society is obliged to use the " purge " to protect itself against these, and since the ordinary method of the Civil Code is very lengthy and costly a special method has been granted by the special law which established these land credit societies. When the claims are known, a notice is issued to the wife or to the guardian of the minor, &c., to register their claims within fifteen days, failing which such claims will only take rank *after* the mortgage of the society; if they are unknown, a notice is sent to the public pleader, and is published in the local newspapers in which judicial notices are inserted; all claims not registered within forty days yield in rank to the society's mortgage. It must be understood that such claims are not extinguished by the special " purge " of the Crédit Foncier, but merely postponed to that of the bank. It will be seen that there are two classes of " purge;" one absolute in which the acquirer of property gets rid for ever of all opposing claims, the other temporary by which a particular society obtains priority for its mortgages; the former corresponds to the " purge " established by Acts such as the Jhansi Encumbered Estates Act, or to the " liquidation " proposed by a Poona syndicate as the necessary preliminary to the establishment of a bank, the other to the proposal of an intended bank in this presidency which desired power to give notice to claimants, known or unknown, and to obtain priority for its claims as against all claims unregistered within the term of the notice.

In this presidency the " purge " is unnecessary for the ascertainment of prior mortgages; all such are in practice, registered, and can therefore be ascertained (*see* ' Registration '), while section 91 of the Transfer of Property Act gives a bank which has obtained an interest in a property, the right to redeem any prior mortgages, even before the expiry of their term unless the deeds of such mortgages expressly stipulate a date before which payment may not be tendered. Such at least appear to be the rulings of the Madras High Court (I.L.R., 2 Madras, 314), and if there is any doubt, it is advisable in the interests of credit, that mortgagors or others having any interest under section 91 of the

Transfer of Property Act should, in the absence of an express contract to the contrary, be distinctly given by law the power of redeeming at any time on proper notice. Assuming this to be already the law, it follows that the bank can always redeem existing mortgages and thus obtain the only proper position for a bank, viz., that of first mortgagee.

The " purge " therefore, if needed, is only for enabling a bank to ascertain those indefinite and vague claims arising out of the Hindu family system, and to obtain priority over them. In long term loans of perhaps thirty years duration, it may easily become the interest of dayâthis, or perhaps of the mortgagors themselves acting through dayâthis, to set up claims as co-shares, minors, &c.; it is indeed precisely this uncertainty which debars extraneous capital from venturing into rural credit; one large mofussil Nidhi has expressly stated that it does not invest in rural mortgages, because of the uncertainty of title, while the claims set up against *bonâ fide* purchasers in the mofussil for years after purchase, are well known. The local money-lender has here the advantage that he knows the family either directly or through his other debtors in the village who are probably the monigar or kurnam, and he discounts any risk by heavy interest, much of which is really insurance.

Where banks are really local credit societies as advocated, they will have precisely the advantage of the money-lender, viz., local knowledge, with the additional advantages that their sources of information will be still wider, gratuitous, and even interested, since all will be members of the same society. But in cases where banks cover a larger area; say a taluk, they require a counterbalance if they are ever to compete with, much more supplant the money-lender, and this is found in the " purge." The bank would demand a complete statement from the intending borrower of his own interest in the land, and of all known co-sharers, encumbrancers or holders of privileges over it, with a certificate that this statement is true; a false statement would bring him under the Penal Code for cheating or attempt at cheating. Notice would then be sent to the village where the land is situated, tom-tomed and affixed at the village chavadi, and made known by any other advisable method such as advertisement in the District Gazette. Failing objection, which should be made to the bank and which should be registered by the objector under section 17 (*b*) (an instrument declaring a right in immovable property) of the Registration Act, the bank should be considered as having, for its own mortgage merely, an indefeasible prior right as against all persons claiming an interest or title in the property otherwise than by instrument registered previous to its own mortgage; in other words, it would obtain priority for its own mortgage during the subsistence of such mortgage. Should this be considered advisable it will be necessary to legislate to that end.

(*c*) *Provision for declaring loans binding on co-sharers.*—The difficulty regarding co-sharers is universally felt, and it is a rule that the consent of all co-proprietors must be obtained before the loan is granted. That is a standing difficulty in this country, where the claims of sharers are so important; in the absence of the " purge " above noted some desire that loans should be declared binding on the families of borrowers. Loans for *family* purposes are already treated as binding on the whole family, when contracted by the managing member. It is not advisable to go further, and declare that all loans taken from a bank are binding on the family simply because the loan is taken from a bank. If the loan is for improvements, necessary maintenance, &c., the loan will, in any case, be binding; if it is not for such purposes, it ought not to be binding, for this would at once tend to an extravagant abuse of credit. But it may be well to declare by statute that loans taken for improvements from a bank are to be binding on the family without resort to the " purge," the word improvements being defined for that purpose only, much as in the Land Improvement Acts whether of western countries or of India and to include the redemption of prior family debts, charges for maintenance and education, and for the due working of the estate. So far indeed as loans for actual and permanent land improvements are concerned, such as wells, &c., they should be charged upon the land as under the special well rules of this presidency, and not upon the individual, in which case all formalities, doubts, and difficulties will be got rid of. (*See* ' Land Improvement Banks '.)

(*d*) *Modification of the Revenue Law of sale of land free of encumbrances.*—This law, as contained in section 42 of Act II of 1864, is a stumbling block in the way of credit and of bankers; on this account some mofussil Nidhis either refuse mortgage loans altogether, or grant them with great caution; it is obvious that if a mortgage is to be wiped out by the mere fact that the land has been sold for Government dues without specific notice to the mortgagee, the risk of total loss of the amount lent is very considerable and must result either in a refusal to lend or in a high insurance premium; as stated in G.O., No. 1324, Revenue, dated 1st October 1884, " notwithstanding the stringent provisions as to the publication of notices of revenue sales under Act 11 of 1864, it sometimes happens that parties interested know nothing of what is going on, and lose their rights rights in consequence. " This is a very serious fact not merely for the losers but for the public; insurance rates, not based on actuarially accepted data, are based not so much on actual loss, as on the fear of loss and on the excuse of risk of loss. That that *fear* is really great is shown by the fact that one mofussil Nidhi with a capital of several lakhs, and more than a thousand members, excludes, by its articles, loans on the mortgage of lands, the reason, as stated by the secretary, being the dangers of the Revenue law to a society which has ramifications into several taluks distant from its head-quarters.

It is unlikely that this law will immediately be altered, though it is arguable whether the provision is any longer necessary now that land has a good sale value, at least that part of it which is worth attaching and selling for arrears.

The question, however, is whether land subject to a bank mortgage can be excepted from the rule; if not, what precaution should be adopted to save the bank.

In the case of advances made for land improvement it seems advisable to enter a saving clause in favour of the loan. The advance is made solely to improve the land; the capital advanced is sunk in it, and is a plus-value given to the land beyond that value on which the revenue was fixed, and as the bank mortgage is, *ex hypothesi*, only the value of the amount advanced, even at its maximum, while, under the system of payment by annuities, it is a constantly decreasing charge, there must be an ample margin for securing the Government dues in arrear, which are now at most those of a single year. Hence the charge should be adherent to the land, which should be sold subject to such encumbrance, which, from the fact of the bank holding it as a first charge, will probably be, during such mortgage, the only encumbrance. As a matter of fact the provision will be more preventive than practised; a person who has improved his land will not let it be sold for petty arrears, but the provision will prevent collusive arrears and sales to the prejudice of the bank, whether by the owner or by a tenant who covets the land.

The word "improvement" should also be enlarged to cover the planting of permanent orchards.

In the case of ordinary loans for general purposes secured by a mortgage, there appears no special necessity beyond that common to loans from any source; if the section is repealed for all, well and good; if not, there seems no special reason to favour ordinary loans by ordinary banks as against those by private lenders. Nor does there appear any grave necessity for any special rule of law to secure banks against sales without their knowledge; section 27 requires that notice of attachment, which is the necessary first preliminary of sale, shall be published in the District Gazette as well as in other ways, while section 36 provides that the subsequent sale notice shall be fixed up at least one month before such sale at the Collector's office, at the Taluk cutcherry, at the nearest Police station, and on the land; hence a bank can perfectly protect itself with but ordinary diligence, viz., by subscribing for the District Gazette and by sending an agent periodically to examine the notice boards at the office. It should, however, be made an administrative rule that both attachment and sale notices should be affixed at the village chávadi which now exists, or will shortly exist, in every decent village; that a copy of the gazetted attachment notice under section 27 should be affixed on the Collector's and Taluk notice boards, and that such notice boards should be hung up *outside* the door of the offices in a conspicuous place, so as to be legible by and known to all and open to copy without entering the office.

It would be well to add a proviso to section 35 of the Revenue Recovery Act, that sums paid as arrears of revenue by any bank on account of the default of its mortgagor should be recoverable by the bank in any way that its principal debt might be recoverable, while the law relating to the bank should provide that, on the failure of the defaulter to repay such arrears within one year, the bank should be at liberty to call in the mortgage and require immediate payment of the balance of its debt.

(*e*) *Alteration of section* 66 *of Transfer of Property Act.*—This section is as follows:—

"A mortgagor in possession of the mortgaged property is not liable to the mortgagee "for allowing the property to deteriorate; but he must not commit any act which is "destructive or permanently injurious thereto, if the security is insufficient or will be "rendered insufficient by such Act.

"*Explanation.* A security is insufficiently within the meaning of this section unless "the value of the mortgaged property exceeds by one-third, or, if consisting of buildings, "exceeds by one-half, the amount for the time being due on the mortgage."

This section increases the difficulty of granting long term credit, except where the loan is repaid by annuities. In this latter case the security increases as the loan is paid off, so that deterioration is of less moment than when the full amount is repaid only on the expiry of a term; but when the mortgage is granted for a long term, and the mortgagor is not obliged to pay the amount before the end of that term, deterioration is a matter of extreme importance, as the mortgagee may see his whole security vanish. A piece of land is the security for a loan which is spent in liming it, in digging a well, or in draining it; perhaps the security is a coffee estate in bearing; the loan is for twenty years. The lime is used and heavy crops taken out of the land, but no proper manure is added; the soil is hopelessly exhausted and the mortgagee looses his money. The well is dug or the land drained, but the well goes out of repair and falls in, or the drains become choked and useless; the coffee is forced into exhaustive bearing or utterly neglected, and is abandoned at the end of twenty years. It is unlikely that any Court would say that any of these acts or omissions are acts destructive of and permanently injurious to the land; liming is a well-known and legitimate agricultural operation, and the omission to supply a feeding manure would not be construed as an "injurious" act or omission; the well or the drains were made and the omission to keep them in order is not an act of destruction or injury; as for the coffee a man has a right to get as good crops as he can out of the land, and if it is neglected, why the law expressly provides that the mortgagor is not liable for merely allowing deterioration. Section 68 does not cure the difficulty, for clause "b" allowing a right to sue for the mortgage money in case of

'default' by the mortgagor must be read with section 66, by which it is clear that the mere allowing an estate to deteriorate is not a "default," while the final paragraph of section 68 expressly refers to causes "other than the wrongful act or default of the mortgagor."

It is difficult clearly to understand the general European law, but "deterioration" allowed to a mortgaged property seems to give rise to an action for damages; section 2175 of the French Civil Code (similarly in Italy) says that third parties holding mortgaged property are liable to an action for damages for deterioration arising from their negligence to the prejudice of mortgagees, and this seems the case as regards mortgagors themselves. In the case of the Credit Foncier, section 32 of the special law makes "deterioration of the property" a lawful reason for at once selling up the mortgagor, while in every German land bank, deterioration, or even bad management tending to deterioration or to the diminution of the bank's security justifies, after neglect of a notice, the immediate calling in of the loan or the taking of the estate under management In the various Land Improvements Acts of Great Britain, every owner, who has borrowed money for improvements and thereby given rise to a rent charge for its repayment, is bound, during the term of such rent charge, to keep all the improvements in thorough order, and if necessary to insure any buildings against fire, and is further bound to send to the inclosure commissioners an annual certificate to the above effect; in default he is liable to an action for waste.

In the law required for Land banks, it should be provided that, during the subsistence of the mortgage, whether such mortgage is redeemable by annuities or at the end of a term, the property mortgaged shall be treated by the mortgagor "*en bon père de famille*," as a good husbandman or householder, or as provided in section 108 (*o*) of the Transfer of Property Act in the matter of lessees; failing such care, he should be liable to immediately repayment of the full amount due.

If it is not considered desirable to alter the law, all land banks should protect themselves by an express provision in the mortgage deed that the property should be maintained in a full state of efficiency, and that all improvements effected by the loan should be maintained in thorough order, failing which the loan should be repayable on demand.

Procedure.—The question of privileged procedure in the recovery of debts by credit banks is one of the utmost difficulty and importance. Given certain privileges of procedure and banks would everywhere be started; whether such privileges should be granted is the question. Extensive privileges of procedure have been demanded by groups of Indian capitalists as a condition of starting land and agricultural banks, it being assumed by them as axiomatic that such banks will be the economic salvation of the ryot and that they should therefore be granted royal roads to success, *i.e.*, to a large and unembarrassed or at least white-washed clientèle, and to large dividends. Appeal is made in support of these claims to the example of Land banks in Europe, but, as shown above, it is only to the mutual associations working without serious capital and without dividends, to Government institutions, to certain Italian banks and to the French Crédit Foncier, that certain such privileges are granted, and even these privileges are mere necessary ameliorations of a costly and complicated or even prohibitive general law, while the invariable corollary is a very considerable amount of State supervision as well as of State taxation. Moreover they are frequently not privileges at all in the present day when "summary" procedure is common, while the supposed special privilege, as in Austro-Hungary, of proceeding through the Commercial Courts is not special, but is common to all banks and business entities (commercants) in commercial matters; nor is there anything in the mere procedure of those Courts which is more favourable to parties than that of the ordinary Small Cause Courts in India, except in their power, as regards special banks, to deal with land mortgages and to sell the mortgaged property.

The question however for this presidency is not whether in other countries privileged procedure has been granted by the law, but whether the available procedure does or does not grant all reasonable Court facilities for recovering loans.

Now in this presidency the facilities for the recovery of dues under Rs. 20 are exceptional, and for those under Rs. 50 very considerable; even for sums so large as Rs. 200 the procedure is unusually favourable; there are few countries in the world, whether Continental Europe, England or America, that approach the Madras Presidency in its actual, still less in its potential facilities for cheap, speedy, legal and popular methods of recovering small debts. In Italy the village conciliators are given power to issue decrees up to 100 lire (£4); in Madras a village debt of Rs. 20 can be recovered practically without cost, and in a few days. The Village Courts and the Small Cause Courts of the District Munsiffs are means available in this presidency, which will, for all practical purposes, meet the demands of Rural Credit banks.

Before discussing the Courts it is needful to recollect the class of debts that will form the immense mass of business. The mortgage debts are necessarily those which are, as a rule, highest in individual amount, mere book debts and debts on personal security or on simple bonds other than those which it is thought worthwhile to register, being generally of small value. Now in the four years ending 1889-90, the average value of all mortgages varying from one to about ten years in duration, was Rs. 182; those above Rs. 100 averaged Rs. 321, and those under Rs. 100 (about half the aggregate number of mortgages) averaged

only Rs. 44. Hence the class of loans to be dealt with by rural banks and societies in this presidency will seldom rise above Rs. 500, and about half will be very largely below Rs. 100.

Now it has been pointed out that if these banks are to do useful work, the work they have begun to do in Europe, considerable loans must be for long periods, and *repayable by iinstalments;* small loans for temporary purposes may be for short terms and repayable in lump, but relatively large loans cannot be so dealt with in the interests either of the lender or of the borrower. This is an essential point in rural credit, and banks and organized credit will only succeed in their real mission in so far as this is recognized; in fact the loan Funds of this presidency lend chiefly upon the " payment by instalment " principle, the period ranging from forty-five to eighty-four months, and the instalment being usually 1 or 2 rupees per month per hundred. Now one result is that large loans, say, for Rs. 100 to 500 will be granted by future banks for not less than from five to twenty or even thirty years, the instalments being annual or more frequent as may be arranged. Supposing the average loan to be Rs. 200 at 8 per cent. interest, repayable by amortization in ten years by half-yearly instalments; in such case each half-yearly instalment including sinking fund would be about Rs. 15, or, if paid similarly to the revenue kists (four) which would probably be acceptable to the agriculturist debtor, each instalment would be about Rs. 8 payable in (say) four consecutive months. Assuming the worst possible case, viz., non-payment of any part of the year's dues, it would follow that what would have to be recovered would be four successive payments of about Rs. 8, or two of about Rs. 15, each recoverable as soon as it fell in arrears.

Now the Village Courts of this presidency are empowered to try suits of simple debt or contract, or for balance of account up to Rs. 20, or with consent of parties up to Rs. 200; during the past twenty years they have tried more than a million registered suits besides an enormous number of unregistered, informally adjudicated or conciliated cases, the average value of which was about Rs. 9. Hence these Courts are already perfectly capable of dealing with the mass of small business likely to arise from the operation of rural banks, since a suit will lie separately for each instalment due, and each such instalment will probably be below Rs. 10 and certainly below Rs. 20. Not only so, but even large sums—up to Rs. 200—can be similarly dealt with by consent of parties.

So far as ordinary debts on simple bonds, promissory notes, book accounts, and the like are concerned, the Village Courts will have complete jurisdiction, for the total of many debts will be below Rs. 20, while a very large number will be repayable only by instalments usually much below that sum. As regards instalments on debts collaterally secured by mortgage (simple mortgages) there might be some doubt, since Village Courts are not empowered to deal with mortgages. It must, however, be remembered that the suits to be tried will not be suits upon a mortgage deed for the sale of the mortgaged property which is the method open under the Transfer of Property Act, section 88, for simple mortgagees to recover their principal; they will simply be suits for the recovery of small sums of money which a debtor has contracted to pay periodically, and the fact that these payments contain, in addition to the interest, a small instalment of the principal money, will not make the suit a suit under section 88 for the sale of mortgaged property with a view to the recovery of a principal. The position of the parties is that of simple debtor and creditor in respect of each periodical instalment, and the mere fact that the debt is collaterally secured by a mortgage deed does not make the suit a suit upon the deed, but merely a suit for a sum of money. If this view, however, is wrong, then the Village Courts have no present jurisdiction as regards mortgage debts. But, considering that the plaintiffs will be societies and not persons, that the suits will *not*, in fact, be suits for the sale of mortgaged property, but essentially debt suits, and that the facts can never be in real dispute, it is advisable to enter in the law (I of 1889, section 13) that suits for the recovery of mere instalments of debt due to a bank, company, corporation or society shall be within the competence of a Village Court even though the principal debt be secured by a mortgage, but not so as to include suits for the recovery of the principal debt by sale of the mortgaged property. It should be remembered that, even in England, Land improvement societies can distrain summarily for arrears of instalments of loans which are secured by a mortgage or charge on the land; hence procedure by the Courts, even though only Village Courts, can hardly be considered objectionable.

It is noteworthy that these Courts take about one-quarter of the litigation of the whole presidency, and though the values be absolutely small, yet they are not so relatively to the fortunes of the parties who sue or are sued. Moreover it is to be noticed that in the decade ending 1889 the suits below Rs. 10 triable alike by Village Munsiffs and District Munsiffs, were actually tried by these Courts in the proportion, respectively, of 73 to 27, while since 1886, suits up to Rs. 20 similarly triable, were tried in the proportion of 60 to 40; 61 to 50 in 1893. " In ten years, out of 778,475 suits in which the plaintiffs had a " choice of Courts, no less than 530,150 or 68 per cent., *i.e.*, two out of every three individuals, chose to sue in the Court of their Village Munsiff in preference to going to the " Court of the District Munsiff " (Mr. Evans' Report).

It may be objected that these Courts are untrustworthy or incompetent. The figures given above show beyond doubt that these Courts are largely resorted to by the people

chiefly on the ground of irregularity, not of corruption. The figures for the past seventy-five years, but especially those since 1850, show a steady increase of work in these Courts; in 1850 the number tried was 10,960, the highest reached since 1816, from which date till 1883 the number filed steadily rose to 48,967; for the next three years there was an enormous increase, the suits numbering 85,600 in 1885; after that they fell for some years, but are now rapidly increasing; the figures for 1890, 1891 and 1892 are 59,113, 64,129 and 67,651 respectively. As a matter of fact ten persons now sue in the Village Courts for every one that did so fifty years ago. These suits were disposed of by about one-tenth of the whole number of Village Munsiffs, and almost entirely by the Village Munsiff sitting alone; the bulk of the litigation is in the Tamil districts. It is also known that about two-thirds of the suits were in thoroughly rural villages, doubtless of the more important class; a number absolutely large, but not unexpectedly so, were also tried in the towns. It is however in the towns (so-called) and chief villages that rural banks will first be started, and not in the smaller ones. For instance, in 1891, 3,062 Village Courts disposed of 58,073 suits; 88 of these Courts tried 21,219 suits, or 36.5 per cent. of the whole; 1,211 village munsiffs tried from 1 to 5 suits, and 1,066 tried from 6 to 25, and so on: 69 per cent. of the suits were heard but not contested, and 16.7 per cent. were disposed of without trial; only 14.3 per cent. were actually contested. As regards competence, much of the condemnation of these Courts, which is sometimes heard, is based on the fact that their work is done unobtrusively, and that it only comes to notice when complaints are made, so that officers, hearing only complaints, form a bad opinion from ignorance of the amount of real and satisfactory work which does not come to their notice. In 1887 a special report was made at the request of Government by the High Court; in this report it was expressly found by the High Court that the Village Munsiffs were not proved, as a rule, to be incompetent, while in the G.O., dated 10th October 1887, passed upon the report, a more positively favourable opinion was expressed by Government, who observed that for the decision of the business coming before the Village Courts, the qualities chiefly required were common sense, local knowledge and influence. Moreover it is to be noted that these Courts, though subject to no appeal, have been increasingly resorted to year by year, a fact in itself in favour of their competence. It is to be remembered in the first place that all the suits triable by a Village Court are of the simplest character, intelligible by men of ordinary understanding. Moreover in these suits there is seldom any real dispute of fact, and the law is of the simplest; above 85 per cent. are decided without contest. Again it can hardly be doubted that the increase in suits is partly due to the increased education of the Village Munsiff; this is annually improving, and it will soon be rare to find a Village Munsiff who is not conversant with the three R's, or who has not passed the Primary examination. Still further, the new Act (1889) is a most carefully drawn up and very valuable Act embodying not only the best features of the old regulation, but the experience of many years, as concentrated in the opinions of a powerful committee which sat in 1882, and on the lines of whose report the present Act was largely drawn by the Legislative Council after much further consultation and discussion. This Act gives considerable powers of supervision and revision to the District Munsiff, who can withdraw or transfer suits upon good cause shown by either party; the methods of procedure are also supervised by the High Court who prescribe the necessary forms and returns. Moreover, in villages specially notified from time to time, it is permissible to register a body of men capable of acting as assessors, and any party desiring it, can claim that his case be heard by a bench consisting of the Village Munsiff and two assessors, who will thus form a sort of "Conseil de Prud'hommes" for the disposal of local disputes. It is further to be noted that though the hereditary principle is rightly recognized, yet that a Village Munsiff may be removed for incompetence or negligence, and that as the post becomes daily of greater influence, men will have either to qualify themselves or their sons for the post, or give place to other men. Hence it is certain that the Village Courts even as at present constituted, are competent to deal with the great bulk of the work likely to come before them in connection with the debts due to rural banks within the next ten years, by which time every village munsiff will most certainly be a comparatively educated man; also that in the course of a very few years these Courts will be very considerably developed in numbers and competence; in fact, the establishment of a local Credit or Co-operative society is in itself almost certain to develop the local Court.*

Now the advantage of these Courts is that they are local, and by that fact influential; the judge or the bench is necessarily composed of men of the village, and those generally the chief men; it is impossible for debtors, especially in bank or Mutual Loan society cases, to set up a false defence, and it is practically impossible for decree-debtors to resist the decree. At all events it is proved by the records of many years, by general experience and by special enquiries, that not only are complaints against these Courts an almost negligible quantity, but that decrees are seldom carried out by coercive process, such process, when resorted to, seldom, if ever, going beyond distraint. These facts speak volumes for the justice and influence of the village munsiffs and their decrees, and entirely negative the theoretic assumption that village faction either actuates the decrees or factions opposition to the village munsiff's authority. Complaints

* For many of the above remarks and figures relating to Village Courts, the special report, dated 1891, of Mr. H. F. Evans, I.C.S., Judge of Moradabad, North-West Provinces, has been drawn upon. This report, which most lucidly details the facts of the Madras Village Courts, has resulted, it is believed, in a scheme and law for establishing similar Courts in the North-West Provinces, where they have, as yet, had no existence.

judicial capacity, are so rare that most magistrates, though the immediate superiors of the village officers, never receive a complaint of the sort throughout their official career, and very many are almost unaware of the vast mass of petty civil business, tried or conciliated by these subordinate Courts, so quietly and successfully is it done.

In the case of Co-operative banks, moreover, it is found by experience that members seldom fall wilfully into arrears; they are ashamed of betraying their society and their neighbours, and are anxious to pay all they owe, especially when the institution grows in favour and the people experience its benefits. In this country this feeling is likely to be equally powerful, the more so that a villager who deceives his village society and causes loss to his neighbours is likely to be ostracised, and ostracism is the most dreaded of penalties. Hence the village judges, who will often be mere registrars of admitted and perfectly well-known debts, will have little trouble in making and executing their decrees.

But there are also the immense advantages of economy; there are no court fees, no process fees, no lawyers' charges, no batta and mileage to witnesses, no loss of time to parties in travelling to and from Courts—averaging in distance from 15 to 20 miles—and halting there. The decrees can be executed by the village munsiff on the spot, and as the parties all reside within the village and everything is known or traceable, the attached property can safely be left with the decree-debtor till the time of sale—should such be necessary—, an advantage in every way. Even the disposal of the suits is speedier than even the small cause suits of District Munsiffs' Courts, thirty days being a fair average as ascertained from many years' statistics, a period capable, however, of considerable reduction.

Mr. Evans, in his report, considers it proved that justice is obtained not merely by the general honesty of the village judges, but by their greater opportunities, due to proximity, of ascertaining the truth; that they are economical not merely in costing little, but in gaining the whole value sued for, whereas in a regular Court even a successful decree is seldom completely satisfied, for much of the expense is of too indirect a character for any Court to allow it as costs, while many a debt is abandoned because of the prime cost and the chances of further loss; that they are accessible and prompt; that they prevent much of the ill-feeling engendered by recourse to the regular Courts, and frequently terminate amicably and at all events with a minimum resort to trickery, false evidence, and eventual coercive process; that without them a vast number of wrongs would remain unredressed owing to the inconvenience and expense, incommensurate with the value of the suit, which would be caused by resort to the regular Courts; hence their popularity, and in fact necessity.

Exemption from court fees has been claimed by the promoters of proposed banks, on the ground that as court fees fall on the debtors, such relief is a relief to them and not to the bank. The plea is only partly correct; suits are not always successful, nor are decrees always satisfied in full, inclusive of all costs; a proportion of court fees may therefore fall on the bank, either rightly or wrongly. But the claim is practically satisfied by the existence and procedure of the Village Courts, in which court fees and even process fees are, speaking generally, unknown; so far as a bank chooses to sue in the local Court, so far is justice free of charge. Hence the claim of promoters to this privilege as one necessary condition of establishing a bank, need not be considered; either they can sue without incurring court fees or—according to their own statement—the cost of such fees falls on the debtor only. Nor does there seem any necessity for the privilege; to remove court fees would tend to throw a large body of the most petty work into the Courts of the district munsiffs, and would unnecessarily hinder the development of the Village Courts. The object should on the contrary be to relieve the already over-burdened district munsiffs of the work of disposing annually of about 50,000 petty suits which are concurrently cognizable by the Village Courts, and not to further burden them at the expense of Courts which are perfectly capable of dealing with this small work. Even suits between Rs. 20 and Rs. 50, a value likely to be the maximum for all ordinary bank suits, can be tried by Village Courts, and as the facts and figures of all such debts will be evidenced by documents and regularly kept accounts, even such work can be readily disposed of by a village munsiff, who, with the karnam, daily deals with village account transactions.

It may be worth while to exempt from court fees leviable under schedule I, Article 5, the review by a village munsiff of his judgment, provided in sections 32 and 33 of the Village Courts' Act, and the copy of the decree passed under section 46 of the Act from the fee under schedule I, Article 7, of the Court Fees Act.

Under the present system a plaintiff has full power to file his suit, if of Rs. 20 or less, either in the Village Court or in the District Munsiff's Court, and section 21 of the Village Courts' Act (1889) provides that a district munsiff may, on the application of *either* party, withdraw a suit from a Village Court to his own file and transfer it to another Village Court; section 73 further grants complete powers of appeal or revision to a district munsiff in the case of corruption, partiality and misconduct by a village munsiff, or of his having exceeded his jurisdiction, or of his action being illegal or materially irregular, or if his decree is clearly unjust or contrary to law. These provisions give not only considerable latitude to both plaintiff and defendant in determining whether the suit shall be heard by the district or by the village munsiff, but also give large powers of revision to the district munsiff, and considering the excellent way in which suits have hitherto been themselves, while, as a matter of fact, complaints against them are trifling and rare, and

not to lead to factionary disputes; the High Court in fact in their special report, dated 8th August 1887, conclude as follows: " If it be resolved to give to the Village Courts exclu- " sive jurisdiction in suits of the character described in the Bill involving sums below " Rs. 20, then the right of either party to insist on having his cause tried by a bench may " be desirable, *but not otherwise.*" Probably the experiment will be tried very cautiously, and it may be suggested that if powers of conciliation only as in Italy (*see* next section *s.v.* ' Disputes ') are granted at first, the benches will become accustomed to combined judicial work. The provision is permissive, not coming into effect into any village till that village has been expressly notified by the Governor in Council.

Whether the jurisdiction of the Village Courts should be made exclusive for suits under section 13 up to Rs. 20, is a question. It is open to a plaintiff to file his suit in a District Munsiff's Court, perhaps 30 or more miles from the defendant's village, so that a defendant would be put to the expense of Court and process fees, witnesses' batta, lawyers' fees, loss of time, &c., in a suit for perhaps Rs. 15 or 20 in which the total cost might easily amount to the value of the suit. That seems hard, but it must be remembered that it is only likely to happen when the bank is a Central and not a Local bank, and that the bulk of the projected work will probably be done by local, *i.e.*, village or cantonal societies, which, for their own sakes, will prefer the Village Courts. Moreover in the present stage of Village Court development, it may be well to retain concurrent jurisdiction to the extent at least of the institution of the suit. But it is regrettable that district munsiffs, who have large powers of revision, withdrawal and transfer, are unable to *refer* suits below Rs. 20 to village munsiffs, either to the Court of the village in which either party lives or to that of a village immediately adjoining such village. In thousands of cases it cannot be necessary or advisable to waste the time of a district munsiff, and the money and time of parties, in these petty suits, which are frequently not filed in the Village Courts simply because the parties are ignorant of the powers and jurisdiction of the Village Courts, or because kakeels naturally prefer the regular Court at their own head-quarters. The power of reference here proposed should, it is suggested, be inserted in the law.

The development of the Village Court should, it is believed, be now earnestly taken in hand; Village Courts and village conciliators should be the backbone of petty justice, and it is believed that in this matter it is not education that will develop the Courts so much as the incessant direction of attention to them, and, still more, the establishment of those small local Credit or Benefit societies, which are everywhere found to be not merely centres of economic progress, but stimulators of business habits, and of local energy, stir and life; in such case the Village Court, whether a judge or a bench, cannot fail to partake largely of the surrounding development.

It is possible, however, that a development of village benches may be found in Cantonal or Union benches. In France and elsewhere the village is considered too small a unit for judicial purposes, so that the canton, or group of about ten villages on an average, is the judicial unit, its Court being presided over by the Juge de Paix. Madras is fortunate in being able to work successfully with the village as its judicial unit, but it may possibly be that as society and its affairs become more complicated, the " group " may, in quasi-urban centres, take the place of the " village." This is already the case as regards Unions under the Local Boards' Act, and it is possible that such Unions might have local Courts with local benches, especially as such Unions will probably be among the earliest provided with rural banks, in which case suits could probably be heard by such benches without the objection that may attach to a Village Court, viz., that the judge is connected with the bank which files the suit. At present, however, the Cantonal or Union Court is neither in existence nor absolutely necessary.

The difficulty as to a village munsiff trying the suits of a bank in which he is interested is practically provided for by section 16 of the Act.

Section 15 of the Act seems to contain a clerical error, viz., that suits shall be instituted in the Courts of the Village Munsiff within whose limits " *all* the defendants reside, &c." This bars the filing of a suit in any Village Court when there are several defendants residing in several villages; the wording should apparently be " any of."

On the whole, then, the Madras Presidency is well and sufficiently provided with Courts competent to try the vast bulk of the petty suits likely to arise should rural banks or Loan societies become a general social feature, while these Courts will, under the influence of education, of the business training induced by the very existence of these societies, and of the operation of Act I of 1889, become more and more able to grapple with judicial business. Cheap, certain, accessible, local, and prompt, nothing more seems necessary in the way of assistance in recovering petty debts judicially.

Proposal to make Registration equivalent to a decree of Court.—This proposal was made by the promoters of a projected society in this presidency (G.O. No. 1324, dated 1st December 1884); they desired that a Court be authorized to enforce, by summary process, the terms of any document for the recovery of advances, provided the bank has taken the precaution of registering such documents, and has paid the advance in the presence of the sub-registrar. The proposal was supported by the Collector, and by the Director of Agriculture, but negatived by Government on the ground that " though registration can disposed of by the village munsiffs sitting as sole judges, the provisions of section 9, providing for a bench, seem to be an innovation of doubtful value, and one more likely than against village munsiffs for corruption, partiality or even negligence in their civil

" secure the genuineness of a document, the registering officers cannot settle such questions " as the right of the borrower to charge the property, the true interpretation of the docu- " ment, or the plea of satisfaction in whole or in part. It is impossible to take away from " debtors the power and opportunity of raising these questions, and if they are to be " dealt with by the Courts before issue of execution on the document, the procedure might " as well be by regular suit. Similar objections apply to the proposal of the memorialists " to enforce the terms of loans by process under Madras Act II of 1864 or Act VIII of 1865."

It is perfectly true that the matters mentioned by Government cannot be decided by registering officers, but it is suggested that there is no necessity for such matters being dealt with unless a dispute arises regarding them; in most cases, especially where the bank is a local society, and a man's creditors are his own neighbours, and the debtor is conscious that the loan is a genuine affair and the arrears actually due, there will be absolutely no dispute for the Court or other to decide; the questions alluded to will not be raised. There will, in fact, be no question of the right to charge a property except in the case of mortgages, whereas loans on bonds will probably be very common; the interpretation of simple bonds will present little cause for dispute, while satisfaction will seldom be pleaded when a regular bank is the creditor. In the great bulk of cases the only questions will be (1) the execution of the document, (2) the payment of the money, (3) its repayment or default therein; these will seldom be in dispute as between the local bank and its debtors. Hence, there will be a vast simplification in recovery, if the creditor bank is permitted, on summary proof of the above three points, *e.g.*, on the filing of a verified and sworn petition accompanied by the documents, to obtain from a Court, process against the debtor; such process might be a distraint order against which an objection petition to the Court should lie, as in the case of a summary suit under the Rent Act, or an action in replevin in a County Court; the objection should be heard as a summary suit with small cause procedure. In fact the proceedings would be somewhat more formal than those of ordinary distraint, for the distraint would be made not by the creditor and his agents, but by the Court after being satisfied that there was a *primâ facie* case for distraint. Hence, if distraint by the creditor be allowable, *à fortiori* the above procedure, which requires (1) a registered document and publicly witnessed payment, (2) the intervention of a Court, for the summary recovery of arrears. Such summary recovery should only be allowed for arrears of annuities or other periodical payments or for lump sums not exceeding (say) Rs. 50, and should *not* include action by way of eviction from land; such actions should be by regular suit.

A reference to the Italian procedure for distraint will disclose great similarities; that procedure is authorized by the Code of 1866, and is well adapted to cases of debts due to corporations.

Whether the above procedure will be found necessary as the Village Courts develop, or even in their present condition, is a different question; the procedure is a useful alternative.

Summary Process.—But the promoters of banks have claimed other privileged modes of recovery, such as process under the Revenue or Rent laws. The grant of recovery by the revenue authorities will probably not be considered; the objections have been fully stated in the papers embodied in the 'Correspondence respecting Agricultural banks in India,' and need not be repeated; moreover, with its unique method of recovery by Village Courts possessed by this presidency, the method of collection by Collector-bailiffs is as unnecessary as unprecedented. Nowhere in the world have Government officers been made the collectors of bank dues, *except* where the banks are State banks, and public institutions necessitated by previous political action as in the case of the Feudal Charge Redemption banks of Germany and the Peasants' banks of Russia.

In Italy the Land banks are given the right of proceeding for arrears of instalments in the same way as the State proceeds for the recovery of arrears of direct taxes as regards movables only, but such procedure is not through the officers of the State, but by its own officers.

The Old German Landschaften have the power granted to them by the laws which founded them, of proceeding by direct distraint of the movables of the defaulters, and by sale through the Courts, of the mortgaged property; but in no case are they entitled to call on the Government executive officers to recover their debts; no legislature has ever granted such extraordinary powers even to quasi-public banks under the supervision of Government; still less to Co-operative banks, and much less to mere joint stock companies trading for their own profit.

The same objection does not apply to the grant of powers similar to those given to landlords by VIII of 1865 for the recovery of arrears of rent. It has been argued that these powers are necessary to landlords because they are intermediaries between the Government and the payers of revenue. This is hardly correct. No doubt Madras zemindars are intermediaries, but the same power is also given to ryots as regards their sub-tenants, provided the tenancy is evidenced by writing. Even were this the sole reason, there would seem no objection to the extension, should it be necessary, of such powers to corporate and respectable bodies, who might fairly be trusted not to abuse their powers. For when a zemindar or petty inamdar, possibly needy and with all sorts of often unscrupulous, ill-

paid, subordinates of a very low class, is granted these large powers; when a ryot landlord, who is, all over the world, notoriously and necessarily the hardest, most rack-renting landlord conceivable, and when any little "farmer of the public revenue" has these powers, there can be little *à priori* objection to the grant of similar powers to a corporation often if not usually co-operative, which has no personal interest in harshness, and whose defaulters will, in the case of a Co-operative society, be solely members of itself.

But, as a matter of fact, distraint of movables on the authority of the creditor without process at law is not peculiar to Indian landlords, but is a privilege common in most countries to persons to whom rent is owed or money is due upon a proper document. *e.g.*, upon a bill of sale. The English law of distress, even as amended by the recent Act of 1888, is, in fact, in some ways more summary than that of Madras; goods distrained may be left, even without the distrainee's consent, on the premises; they can be sold in five days; even appraisement is no longer necessary, and there are none of the formalities and precautions provided by sections 16, 17 and 34 of Act VIII of 1865. The law of distress, moreover, is applicable not merely to landlords, but to all companies which have advanced money for the purpose of land improvement for the immediate recovery of arrears of the annuities by which the loans are repaid; in all cases the alleged defaulter's remedy is only by action for illegal, irregular or excessive distress, usually in the County Court, the decision of which is not appealable if the suit is below £20. The French and Italian law is even wider in its permission to distrain, but is more safeguarded by formalities; that of Italy will be found translated in an appendix.

Whether it is necessary in this presidency where cheap and immediate recovery through the Village Courts is available is a different question. Considering that the banks will mostly be local, and therefore have local influence, their directors and shareholders comprising, probably, all the chief men of the neighbourhood, the Village Courts are likely to be only too ready to act in case of suits filed, and as these suits cost nothing, and as the Courts are on the spot and as their decrees can instantly be executed, it will probably be much cheaper, speedier, less annoying to all parties, and provocative of less friction, if recovery is made legal by suit only rather than through distraint by the creditor. In case of distraint numerous formalities are necessary, including reference to a distant authority such as the tahsildar, appraisement notices, sale commission, &c., and delays and disputes will be numerous; these can all be avoided by the use of the Village Courts.

If distraint is granted or is necessary by reason of the legal incompetency of Village Courts to entertain suits for the recovery of debts eventually secured by a mortgage, it should be limited as in section 52 of the Village Courts' Act; only movables should be liable, with the exceptions mentioned in that section (wearing apparel, bedding, tools, implements of husbandry and necessary cattle, seed grain, &c.), and standing crops should also be exempted. This is now universal law, and similar exceptions have just been made in the English Law of Distress Amendment Act (1888). Greater formalities should also be required in the way of witnesses to the distraint, and with reference to the custody of the property distrained; the Rent Act is very defective on these points when compared with the English, but especially the Italian law.

Should any summary powers or other privileges be granted to banks if it be necessary to proceed against the land itself? It is considered necessary in the case of the European Land banks to grant some privileges in this matter "because of the extreme prolixity and delays of the law" and its officers and the pleaders (commentary on Italian Code of land credit), but in no case are the powers given so summary as those under Act VIII of 1865, and they must be conducted through the Courts, but with arrangements for comparatively speedy action. Comparatively, for the formalities of an ordinary forced sale of land for debt are so long and costly as to be a standing obstacle in the way of ordinary land credit; the mere enumeration of them under the French law fills three printed pages, and even those specially prescribed for the Crédit Foncier and considered dangerously summary by French lawyers at the time they were proposed, are still lengthy and costly; the special law requires (1) a demand which, after service, must be registered (transcribed) in the Mortgage Registry office; (2) deposit of the sale notice in the Court before which the sale is to take place; (3) the fixing by the Court of a date of sale, the parties and any other creditors being present if they desire it; (4) three advertisements at ten-day intervals in certain newspapers prescribed by the Court of Commerce; (5) two notices at fifteen-day intervals are to be affixed (*a*) on the notice board of the Court, (*b*) at the gate of the Mayor's office and if the property is a building, on the house; (6) notice of the issue of No. 5 must be made to the debtor and to all other creditors who have got dues registered against the property: (7) the filing of any declarations or objections, followed of course by hearing; (8) the sale, followed by final order; the sale must take place before the Court, or, by the Court's order, before a notary public. The sale price which, in an ordinary Court-sale, is only payable after many delays, is payable comparatively speedily at these special sales, but not so speedily—except as to part—as under the ordinary rules (section 307) of the Indian Civil Procedure Code. It is hardly to be wondered at that, even with this immensely simplified procedure, the Crédit Foncier seldom resorts to the sale of lands. It should be noted,

however, that land sales are rare on other grounds; all loans are repayable by instalments, and the society proceeds at once for any arrears, which are much more easily realized by the ordinary methods than by the sale of the property itself.

It is to be remembered that by European law (French and Italian at all events) a mortgagee has a right to proceed to this sale of lands without suing and obtaining a decree: the procedure described above is that prescribed for such sale, commonly called subhastation; no suit having been filed or decree given, the procedure is through a Court.

It must also be remembered that property in land is most jealously and rightly safeguarded; delays are not considered undesirable, as the law, interpreting national custom and sentiment, and having regard to the difficulties of agriculturists especially when small holders, and doubtless also with political prescience, is most averse to the forced eviction of landholders, and it can hardly be doubted but that a similar tenderness in dealing with landholders is not less necessary in this country. Moreover a moderate delay often enables a ryot, who is only temporarily in difficulties, to pay his arrears. In fact the expropriation of landowners is one of the last acts contemplated by Land banks; a true Land bank looks to the securing of its annuities, and does not wish to disturb the landowner; if the loans and annuities are properly adjusted at first, eviction should seldom be necessary; *e.g.*, the English laws for the recovery of rent charges due upon lands improved by advances; whether from Government or from companies, look chiefly to distress as the prime method of recovery, and sale and eviction are only entered in the Irish Land Improvement Act of 1847 as regards money advanced by the State. The sale of land for arrears due to a bank is not a power easily granted by any State, but is invariably surrounded with lengthy formalities, even where, as in the case of English and Irish laws, the loan is granted for land improvement only.

There does not then appear *à priori* to be any need for making the sale of land for arrears due to Madras banks any easier than in Europe, least of all where the banks are only banks of ordinary credit, and not Land Improvement banks only. Claims for special facilities are asked for, partly because all loans have been contemplated as repayable by lump sums at the end of a term, when, as is well known, the borrower is very likely to be unprepared to pay, partly because the proposals were those either of theorists who feared difficulties or of speculators who wanted royal roads to dividends.

But the powers given to petty landlords in this presidency, even to small inamdars who, possibly, pay nothing as revenue, might, with modifications, be extended to banks *specially* authorized by Government. By sections 38 to 40 of Act VIII of 1865 a landlord is empowered to sell a tenant's "interest" in land, after serving on him a written notice with one month's time, a duplicate being sent to the Collector; should no appeal be made within one month by summary suit, or, being made, be decided against the defaulter, the tenant's interest can be sold under the rules laid down for the sale of movables, viz., by a public officer. It is not the land that is sold, but merely the tenant's interest, so that a purchaser buys subject to all other claims and encumbrances. The law does not state any means for evicting the sold-up tenant, or for placing a sale purchaser in possession, and the provision is very seldom resorted to.

Substituting the District Munsiff's Court for the Collector, similar powers might be granted to banks specially authorized—either individually or as a class—by Government. In Italy every mortgagee—bank or private—has the right of evicting a defaulter as follows: the mortgagee issues a thirty-day notice to the defaulter, and then, without necessarily awaiting the expiry of such period, petitions the Court which has jurisdiction to summon the defaulter for a summary enquiry; the summons must state the full particulars and valuation of the land to be sold; on enquiry, the Court, if it sees fit, orders the sale at public auction; the order contains the particulars of the land, the conditions of the sale, and an order to any registered creditors to enter their claims in Court forthwith; proclamation to a similar effect is sent to the debtor and to the registered creditors, and is published outside the Court, at the village, and on the property to be sold, and is also published, in abstract, in two issues of the newspaper in which official announcements are generally made. After these and other formalities the sale takes place. Practically even the privileged Land banks go through all the above formalities, their privileges only extending to certain minor matters not here mentioned and to the following, viz., that whereas the auction price is usually paid by long drawn out instalments, so much of it as will cover the debt and costs due to the bank must be paid within twenty days, on pain of resale at the auction purchaser's risk.

Similarly in this presidency the bank might be empowered after notice, as in section 38 of the Rent Act, to move the district munsiff by petition with all necessary documents attached, to call on the defaulter to show cause why his right, title and interest in the land should not be sold; should the defaulter fail to show cause upon a summary enquiry, *i.e.*, under the rules relating to small causes, order to attach the land should issue and a proclamation as in sections 287 and 289 of the Civil Procedure Code; thereafter the ordinary rules of the Civil Procedure Code should be followed. So much of the auction price when paid according to section 307, as will cover the claim of the bank as in section 295, should be paid over to the bank forthwith, whether there be opposing claims by third parties or not, subject, however, to the right of such third parties to sue the bank should it have been wrongfully paid to their prejudice.

The above differs considerably from the procedure under sections 38 to 40 of the Rent Act, and from that of the Civil Procedure Code; it contains greater precautions than the Rent Act, while it admits action without previous suit and decree; it permits a summary enquiry, and it gives the bank its dues at once. These privileges should only be granted to selected banks or classes of banks, such as Land Improvement and *bonâ fide* Savings banks.

In G.O. No. 1324, dated 1st December 1884, it has been suggested that Agricultural banks "might be empowered to sell immovable property mortgaged to them, on "their own responsibility as is provided by section 69 of Act IV of 1882" (Transfer of Property Act). This power of selling *without the intervention of the Court* is now legal only when the mortgage is an English mortgage in which neither party is a Hindu, Muhammadan or Buddhist, when the mortgagee is the Secretary of State for India, or when the property or any part of it is situated within the Presidency towns; the power must be expressly conferred by the mortgage deed, and the mortgage must be one of considerable size. In England every mortgagee has now, by statute, the power of selling the property without Court intervention, after the borrower has, for a certain time, neglected to pay the interest due. A Building society usually enters such powers in its rules, which are binding on its members, that is on all its borrowers, and a provision is also entered in each mortgage deed. But no society, thus empowered, is entitled, nor is any of its officers, to buy property thus sold, and there are numerous precautions to secure genuine sales. Under present circumstances it would seem inadvisable to extend these large powers generally to the mofussil; no promoters of a bank have ever asked for this power, and though respectable genuine banks might possibly be gradually entrusted with it, there would be nothing to prevent groups of land grabbers from forming themselves into a Loan society for the express purpose of laying hold of the land. The Transfer of Property Act has so circumspectly introduced this power, and so fenced it with safeguards, that it is evidently a power to be granted most cautiously, and it is wholly unlikely that the law would be at once changed so as to grant to societies calling themselves Land banks, a power so dangerous. So far as is discoverable no such power is granted save as described in the preceding paragraphs in any European country (whether France, Germany or Italy) even to the great privileged Land banks though partly under State supervision. If granted in this presidency it should be by special order of Government in the case of each bank, and it would be equally necessary to provide that no Credit or Loan society should be capable of holding land for more than, say, three years, and that all land acquired by a society should be sold within such time by public auction by a public functionary. Banks, which are intended to assist landed proprietors and are specially privileged to that end, must not be allowed to be the cause of unduly hurried evictions, or to become land grabbers at the expense of an ignorant clientèle.

Bills of Sale.—One of the reforms most eagerly sought in Europe, at least in the Latin countries, is the power of pledging movables which remain in the hands of the pledger (le gage sans dessaisissement); the Civil Codes of those countries recognize no contractual right over movables by a creditor unless he is an actual pawnee in material possession of the goods pledged. Certain "privileges" are provided by law, such as those of the landlord for rent, the seller for the price paid, &c., over movables in possession of their debtor, but movables cannot be pledged unless possession is transferred to the pledgee. One result was the attempt by the law of 1887 in Italy (*see* another appendix) to create a special privilege or charge granted to Agricultural banks (Istituti esercenti il credito agrario), by which such banks obtain, for loans granted "to Agriculturists," a special lien, next only to that of the landlord, if any, over all the movables of a farm, including standing crops, harvested produce, stock and furniture. Such privilege results only from a written contract which, to be valid, must be duly registered by the registrar of mortgages; registration is free of charges. The Belgian law of 1884 (*see* another appendix) is wider in one way, and narrower in another than the Italian law it grants this privilege, if stipulated for in the deed of loan, to any one lending to an agriculturist, and does not confine the privilege to Agricultural banks; on the other hand, the privilege only extends to such articles or classes of articles and of such values as are mentioned in the document. The document containing this contract must be registered, and the privilege obtains validity and priority from, and according to, the date of registration. After three years (Italy) the privilege lapses unless again registered. Registration is subject to several fees, and the documents to stamp duty, but—in Italy—these are at favoured rates.

The Belgian law considerably resembles the English Bills of Sale Act, by which a lender obtains a lien over goods which are left in possession of the borrower. The English Act permits of instruments "conveying either absolutely or conditionally by way "of mortgage *without possession* personal chattels, giving the grantee an absolute or a "conditional power to seize them immediately or at a future time. The essential ele- "ment in a bill of sale is the transfer of property in personal chattels, without the transfer "of possession, but with a right of distress" (Macalpin). The Act includes growing crops amongst personal chattels, when such crops are assigned or charged *separately, i.e.*, apart from any charge upon the land on which they grow. Every such bill of sale must

be duly attested by a Solicitor of the High Court, who must certify that he has explained the effect of the document to the grantor before execution; it must then be registered with its inventory attached, within seven days, or it will be void; such registration must be renewed every five years. Bills of sale on the same goods take priority " in the order of the date of their registration " and not according to the date of execution.

Under certain old Acts of the Irish Loan societies and under that of 1851 governing the cattle-purchase loans in Canton Thurgau (Switzerland), the societies which have lent money to buy stock for a farm retain a lien over such stock, which may be marked with their seal or brand, and until the loan is paid off the society retains the right of summary distress (Ireland). The document must, in Thurgau, be duly attested and registered by the local Juge de Paix.

In India there is in no law any provision analogous to that of the Bills of Sale Act· probably such documents are valid, and they are certainly common. But, as there is no provision for such documents, there is no provision for their registration, and they are, therefore, not merely outside of the statute law, but are dangerous modes to a lender of placing his funds. At present a bill of sale comes under section 18 (*d*) of the Registration Act, as an instrument creating, declaring, &c., any right or interest in any movable property which includes " growing crops " (section 3, Registration Act). It is therefore only optionally registrable. Under section 48 of the same Act, such document, if registered, takes effect " against any *oral* agreement or declaration relating to " such property, unless where the (oral) agreement or declaration has been accompanied " or followed by delivery of possession "; section 50, however, does not apply to such documents. Hence on the one hand even a registered bill of sale could be absolutely defeated by a subsequent oral transaction genuine or collusive, if the owner of the property handed it over to a subsequent pawnee or friend; on the other hand, though registered, it does not thereby take priority of any previous or apparently previous document, though not registered. Obviously, then, the chances of fraud are so great that a bill of sale is, at present, most dangerous to a lender, who may be defrauded by a sham or genuine delivery to a third party, or by another document, which even if genuine could not have been known to him being unregistered.

This should now be remedied. If banks are to lend freely to agriculturists upon the enormous fixed capital possessed by them in their stock, and if agriculturists while borrowing on their stock are to have the use of their stock, bills of sale must, in the first place, be recognized by the law and placed on a legal footing; this is especially necessary also if ryots are to have the power of obtaining advances upon ripening crops, in order to meet the demands for Government taxes, for rent, for maintenance, &c. Demands made in advance of harvest as in the case of the cotton crops, are a fruitful source of indebtedness, and the sums are borrowed on very usurious terms; if a bill of sale upon a crop could be given, a bank could lend at, say, 8 per cent., so that a ryot would pay interest in annas where he now pays in rupees.

But in the second place bills of sale should either be made compulsorily registrable as in the English Act, and as in the Belgian and Italian Acts, or a registered bill of sale should be given the privilege of section 50 of the Registration Act, viz., priority against every unregistered bill of sale or other document creating a charge over the same property, and over any oral agreement whether accompanied by delivery or not.

In the third place it would be well to follow the Italian rather than the English, Belgian, and Irish law in granting to a bill of sale a charge not merely over specified articles or animals, but to classes of articles or animals. A bill of sale to be useful to an agriculturist may have to be of six months, a year, or even longer duration, and during that time particular crops may be reaped and sold, cattle may have died and been replaced, an iron plough may have taken the place of the 'pedda madaka' and so on It should, therefore, be lawful to give, in a bill of sale, a lien over classes of crops, or stock; such power would materially cheapen and facilitate credit; for the lender would no longer have to watch the borrower's disposal of particular items of pledged goods.

Pawnbroking.—An important function of banks in this country of jewel hoards. will be that of pawnbroking. There is no complete pawnbroking law applicable to *small* temporary loans on movables such as the English Act of 1872 applicable to pledges below £10 in value, or the several European laws regarding the Monts de Piété; the only Indian law is contained in sections 172 to 179 of the Contract Act. Certain points seem contrary to pawnbroking practice; section 176 provides that when a pawnee sells the goods pledged for default of payment and the proceeds are less than the amount due, " the pawnor is still liable to pay the balance." That is nowhere else the practice; the pawnee in such transactions advances money on his valuation of the property pawned, and takes the risk of the transaction; he cannot subsequently come upon the pawnor because the valuation was mistaken. Moreover, this provision gives a premium on negligent or collusive sales; the pawnee has no particular interest in getting the full value of the property sold, for he can still go against the pawnor, and it is his direct interest to have the pledged goods, usually jewels or valuables, collusively bought in by a friend or relation.

Nor is there any provision for the proper sale of the goods pledged; in England such sales can only be by public auction, conducted by regular auctioneers and fully advertised, and the price for which the sale was effected must be entered in a catalogue and certified by the auctioneer; this catalogue and the pawnbroker's sale books may be inspected at any time within three years by the pawnor on payment of one penny, and if any surplus above the debt and interest is found to have resulted from the sale, he is

entitled to the refund of such surplus, saving only such amount as may be deficient on some former transaction. In all countries the sale of pledges can only take place by public auction and on the observance of strict formalities, so that poor people may not be damnified by the trickery of the pawnors.

As regards the preservation of the pledges, the Indian Act provides that the pawnor shall pay for such preservation. In the ordinary pawnbroking law there is no such provision, except in the case of a special contract, but, *per contra*, the pawnbroker is bound to take all due care of the pledges, and if a pledge is destroyed or damaged by fire, the pawnbroker is bound, on presentation of the pawn-ticket, to refund the value less the loan and interest, the value being by law calculated at the amount of the loan and interest, plus 25 per cent. of the amount of the loan.

On redemption of a pledge the English pawnor is entitled to a receipt for the payment of the amount, and such receipt is not liable to stamp duty unless the *interest* on the loan is above £2.

A pawnbroker is compelled in England to keep books in a particular form, and to give on receipt of a pledge a printed pawn-ticket which contains all the conditions of the transaction, the rights of the pawnbroker as to charges, sale, &c., and the rights of the pawnor as to redemption, surplus arising from sale, refund of value in case of damage, &c. The importance of the ticket is this; the pawnbroker is entitled to deliver the pledge to any one holding the ticket and paying the amount due, so that the ticket is not merely the evidence of ownership, but, being a valuable security made out to bearer, is transferable from hand to hand, so that a pawnor, unable to redeem his pledge, may sell his ticket, and the purchaser can then redeem the pledge. In case of loss of the ticket the pawnor can make a declaration before a magistrate, which will bind the pawnbroker; this power is printed on the ticket.

The pawn-ticket should be the only document evidencing the transaction, the conditions of which should be printed on it; it should be free of stamp duty for loans up to Rs. 20, and be chargeable under article 29 of Schedule I of the Stamp Act for loans beyond that sum.

Disputes.—It is essential that special provision be made for the special disposal of disputes both between one society and another, and between a society and its individual members. Not only will proper provision on this point prevent much unnecessary litigation, but it will tend to preserve that harmony of relation which is so important, and to prevent that formation of faction which is so fatal to the welfare of societies.

The Indian Company law contains provisions for arbitration which are entirely permissive, and its model Articles contain no rules whatever for the settlement of disputes. Hence, if arbitration is not resorted to, recourse can only be had to the ordinary Courts unless the parties agree to submit to the verdict of a general meeting or other authority while under section 28 of the Contract Act, such verdict, not being that of arbitrators, could not be final, but would be subject to the decision of a suit in the ordinary Courts.

In the German Landschaften all disputes by members with the bank must be heard by the district board of the bank: from them an appeal lies to the general committee (board of directors), and from them to the select committee, which is the ordinary final authority; a last appeal lies to the general meeting, which only takes place every few years. But so long as these authorities keep within the statute, no suit lies against their decision. Practically, therefore, the jurisdiction of the Courts is ousted as regards disputes between the Land bank and its members.

These rules are not unique; the English Friendly Societies, Co-operative societies and Savings Banks Acts provide pretty full rules on this matter, while the European provisions in the Codes of Civil Procedure, and special laws for conciliation in industrial matters, supply the want of specific enactment in the general continental law of societies. Since the banks likely to be formed generally in this presidency will probably be local and co-operative developments of the existing mutual fund system, it is advisable that the provisions of the English law for similar classes of society should be studied.

In the Friendly Societies' Act (1875), it is enacted that the rules *must* provide for the settlement of disputes between a member, or person claiming through him, and the society or any branch or officer thereof, and that the decision thus arrived at shall be absolutely final and without appeal, and not removable into any Court of law or restrainable by injunction; it is enforceable, if necessary, by application to the County Court. It may be doubtful whether it is advisable to permit societies to rule out absolutely all recourse to law for the decision of a dispute, since such provision delivers members bound into the hands of the society if the rules are not framed on sound and equitable principles, for members, on first joining, will seldom trouble themselves to study, or be capable of appreciating the minutiæ of the rules on all points. If, indeed, the rules are carefully and equitably framed, so that the directors—who will usually be one of the disputing parties—of a society may not be judges in their own cause, the provision is not inadvisible, as it prevents useless litigation; the law allows the rules to provide any method of settling disputes, so that good rules may easily be framed, and it should be laid down that the supervising authority should have power to reject rules manifestly inequitable or absurd.

It is common in England to provide that disputes shall be determined by a Court of summary jurisdiction, or by a County Court, and it is expressly laid down by law that if the rules do not actually forbid it, all disputes may, by consent of the parties, be refer-

red to the Registrar for decision upon payment of a small fee; for such enquiry he has powers similar to those of a Court, and his decision is enforceable on application to a County Court. For India the matter is settled by section 28 of the Contract Act in the sense that the jurisdiction of the Courts cannot be excluded except by agreements to refer disputes to arbitration.

In the Italian Popular banks there is invariably an arbitration committee (Probi viri, Prud, hommes) appointed by the general meeting for the express purpose of deciding disputes regarding decisions by the directors on the admission of members, or the issue to members of fresh shares, on the expulsion of members, and on refusals of credit, as well as disputes on matters relegated to them by special rules, or by order of a general meeting, or by consent of parties. They have power to obtain all information from the officers, are summoned by their chairmen, and from their decisions there is no appeal. They act also as conciliators as well as arbitrators. Probably a rule in the articles providing an independent committee of this sort would be unobjectionable.

The industrial and Provident (Co-operative) societies may settle their disputes as above in the case of the Friendly societies, but the insertion of rules in their Articles is not obligatory.

In the case of Building societies (Co-operative banks), it is obligatory to provide rules in the Articles for settling disputes in one of three ways, viz., by reference (1) to the County Court, (2) to the Registrar, (3) to arbitration. The rules must choose one of these three ways which alone are legal, but if either (1) or (3) is selected, it is still open to parties to refer by mutual consent to the Registrar, whose powers as to decisions are those of arbitrators. Hence a rule that disputes shall be decided by a general meeting or by the directors is illegal, though a rule may be entered that the directors may act in the first instance as a board of conciliation. In the absence of express provision in the rules, the term " dispute " does not apply to any dispute as to the construction or effect of a mortgage deed, or any contract on any document other than the Articles of the society, nor can they bar any member from his ordinary remedy in Court in respect of such mortgage or contract. The settlement of disputes when settled as determined by the Articles, is binding and final, and cannot be appealed or removed to a Court or restrained by injunction, but the arbitrators, Registrar or County Court may state a case for the opinion of the High Court.

In the case of Trustee Savings banks all disputes between the trustees or managers on the one part and any depositor or his representative in interest or creditor or claimant of any deposit on the other part, *must* be referred to the Registrar, who can inspect any of the books of the bank, examine witnesses on oath or by affidavit, and compel parties to the reference to give evidence; his award is final and without appeal.

For Indian societies of similar character it should be enacted as obligatory that the Articles shall contain rules for the settlement of disputes between a society and its managing committee or officers, and individual members or depositors; that such settlement may be by the general meeting, by a standing board of arbitration, by ordinary external arbitrators, selected either as provided in the Companies' Act or by lot from among at least seven arbitrators provisionally chosen at a general meeting, by the commissioner (supervising authority) or his delegate, or by a committee of arbitration or arbitrators appointed by any Union to which the society may belong, or by the ordinary Courts and by no other means; that whatever method or methods may be selected by the Articles as the ordinary method, it shall always be competent for parties by mutual consent to refer the dispute to the commissioner, who shall have the powers of arbitrators under the Companies' Act; that the settlement by any such method outside of the Courts shall be final, and not subject to appeal or to a further suit in Court, and shall be treated as an award of arbitrators under the Civil Procedure Code.

The provisions of Chapter XXXVIII of the Civil Procedure Code (proceedings on agreement of parties by a case stated) may also be followed in references to the commissioner, who should then be empowered to decide as though a Court. The chapter provides in itself a method not unsuitable for the decision of disputes within societies.

There is a further method of deciding disputes of an ordinary character before taking them to Court, viz., by Courts of conciliation. These Courts have of late been introduced into India by the Dekhan Agriculturists' Relief Act, and have worked well. It is desirable to extend these Courts in one form or other in this presidency.

In France it is provided by Chapter I, Book II of the Code of Civil Procedure, that no plaint shall be receivable in a Court unless the defendant has been brought or attempted to be brought by the plaintiff before the ' Juge de Paix ' as a Court of conciliation. The defendant must be regularly summoned by the Court, the summons containing an abstract of the plaint. Parties must appear in person, but a proxy is allowed in case of inability: at the hearing, the plaintiff may amend his claim and the defendant may answer it; if an arrangement is effected a minute is drawn up accordingly; if not it is noted that the parties failed to agree. The agreement has the force of a private contract. One party may proffer oath to the other, and the Court may accordingly receive such oath, or note the refusal to accept the challenge. Parties who fail to appear upon summons are liable to a moderate fine to be awarded by a separate Court after hearing the defaulter There are certain exceptions to the necessity for this preliminary conciliation, especially those in which the State or State property is concerned, those which are urgent, and those connected with commerce, for which last special Courts with summary procedure are provided.

According to Italian law there are conciliators in each commune, who, on request of the parties, will, if possible, effect an amicable arrangement, their decisions having the force of a decree up to the value of 100 lire (£4); above that value, the decisions have only the force of a contract which may be sued upon. If the decision has a value not exceeding £2, no appeal lies except for want of jurisdiction, and it may be executed two days later; if above that value it is appealable to the Court of the Prætor within ten days. Proceedings before conciliators are to be conducted without formality, and chiefly without written pleadings or answers; in causes below £2 no written memorandum of the proceedings (processo verbale) is needed, but only in causes above that value.

There are also in France the well known Conseils de Prud'hommes established by law chiefly for the arrangements of disputes and claims for wages, &c., between employer and operative; it is difficult to overrate the value of these Councils as a means, if established in advance, of preventing the development of those disputes between capital and labour which are so unfortunately prevalent. The councils are composed in equal parts of members elected by the employers on the one side and the operatives on the other, the eligibility of the electors and of the members being laid down by law. Such councils, which are of the nature of panchayats, would be eminently suitable in this country for the adjustment of accounts and differences between creditors and debtors; as shown below, they are unnecessary except in towns, conciliation being fairly provided for in the villages of this presidency in the lagally unrecognized but very useful village and caste panchayats which are usually headed by the village munsiff. Legal provision is apparently not actually *necessary* even for urban councils of this sort, since resort to arbitration is free to all. But a recognition of such councils by law would go far to establish them; just as the legal establishment of village munsiffs in Madras in 1816, and the increase to their powers in 1883 led to an immediate development of their work by calling attention to their existence and powers, so the mere permissive legalization of such councils would probably cause their establishment in towns by public-spirited and philanthropic men, such as retired public officials, merchants, &c., to the very considerable alleviation of pecuniary disputes.

These councils are generally conducted gratuitously, though an allowance to the arbitrators is permissible; the electors are all masters and workmen above the age of twenty-five and of five years' standing in their business; those electors who can read and write and are thirty years of age, are eligible as conciliators. The electoral list is made out by the Préfet; the Government formerly appointed the president and vice-president of each council, but the council itself now elects them from its own body. Office is held by the concililators for three years. There are two chambers to each council; one consisting of two members—one from each class—acts in conciliation and meets once a week; the other, composed of eight members—four of each class—meets at least twice a month to dispose of cases not amicably settled before the chamber of conciliation. No professional advocate is permitted to appear for parties in either chamber, and the costs are almost nominal. Awards are without appeal up to £8; beyond that sum an appeal lies to the Court of Commerce (*q.v.*); they appear to be able to execute their decrees, but the mode is not clear.

In the Bombay Presidency all cases of debt brought against agriculturists must first be taken before conciliators. The Government appoints public conciliators; under section 39 any dispute, in which an agriculturist is a party, may be brought before such conciliator to obtain an amicable settlement; the conciliator then invites, or he may direct, the other party to appear; should both parties appear, the conciliator hears the case but without recording evidence, but if an agreement is arrived at it is reduced to writing. If the agreement finally disposes of the case it is sent to the Court having jurisdiction, and failing objection by either party within one month, takes effect as a decree, from which no appeal lies. If the agreement is for a reference to arbitration the Court proceeds as in sections 523 and 524 of the Code of Civil Procedure. Moreover, it is provided by section 47 that 'no suit' to which an agriculturist residing in any area for which a conciliator has been appointed, is a party, can be filed in any Civil Court, unless the plaintiff produces a certificate of less than one year's date, that the matter has been before a conciliator, and the words 'no suit' has been held to include suits of every nature, and not merely those mentioned in section 3 of the Act.

In this presidency no Courts of conciliation are recognized, but, in the villages, the work of this class done by the unrecognized village pancahya'ts or by the village munsiffs acting not as judges but as conciliators, is immense. Out of about 33,000 village munsiffs only about one-tenth try civil suits, but the statements of experienced officers (*see* Revenue Boards' Proceedings, No. 4406, dated 22nd December 1856) and of many village munsiffs themselves (*see* Special Report of 1891 by Mr. H. F. Evans, I.C.S., of the North-West Provinces), as well as common experience, prove that conciliation is, in the case of money and other disputes, the commonest method adopted, whether by the above one-tenth, or by the whole number of village munsiffs acting either alone, or more generally with a panchayat. These panchayats—not to be confounded with those abortive institutions, sought, but in vain, to be established by Regulation V of 1816—or the village munsiff acting as a conciliator, probably dispose of many more cases that might become suits than are decided by the village munsiffs acting as judges, and as these latter decide more than 50,000 suits per annum, the usefulness of these village councils is inestimable. But, as suggested above, a recognition by law of these institutions would probably develop them and their usefulness, such recognition confining itself to a provision in the Village

Courts' Act, similar to that of the Italian law of 16th June 1892 mentioned above, omitting or including the provision regarding the effect of the conciliators, award up to a value of, say, Rs. 10. It might also be provided—following the French law—that no suit under, say, Rs. 20 should be filed in a District Munsiff's Court on the Small Cause side, unless an attempt has previously been made for amicable adjustment before the village conciliators. (*See* also section 67, draft bill.)

Usury.—In every country laws against usury have, at some time or other, existed. They still exist throughout Continental Europe, and in the United States; they have been abolished in England, and in India by Act XXVIII of 1855. In France the usury law has been repealed as regards commercial business, but not as regards civil, in which all agricultural transactions are included. It is a curious and noteworthy fact that whereas in 1867 the Prussian Government abolished the laws against usury (Italian 'Annali di 'Statistica,' III, vol. II.) a general German law was passed anew in 1880 (followed by Austria in 1881), a very strong testimony to the belief in those countries of the need for such a law; the mere survival of a law proves little; its abolition and its subsequent revival is notable.

Now there are two classes of usury law; the old form in which a more or less arbitrary rate, say 6 per cent., is decreed as legal interest; everything beyond that is deemed usurious. That is a very crude and indefensible form, and is productive of much moral mischief from the constant evasion practised. There is, however, another type as exemplified in he new German law, which lays down no such limit but leaves everything to the discretion of the Courts; it provides that whoever takes advantage of the necessities, the improvidence, or the inexperience of another to obtain unusual terms for a loan, or a rate of interest higher than that ordinarily prevailing, is liable to the penalties for usury; these are a refusal by the Court to enforce the claim, and if a prosecution is considered advisable, fine, imprisonment and the loss of civil rights may be adjudged. A usurer by profession may be punished with imprisonment for *not less* than three months and fine up to £750. A point to be here noticed is that a contract which may be equitable and sustainable under one set of circumstances may not be so under other circumstances, as when a ryot is hard pressed by circumstances beyond his own control, or when he is ignorant of the true meaning and effect of his contract. *

The Indian Act XXVIII of 1855, in repealing the usury law, gave, on the other hand, the least possible discretion to the Courts: this Act is still in force, and says plainly "in any suit in which interest is recoverable the amount *shall be* adjudged or decreed by "the Court at the rate, if any, agreed upon by the parties" so that, if by the terms of a bond, a solvent ryot agrees to pay interest at 100 per cent.* per annum, the Court is bound to decree such interest. The Contract Act does not provide a complete abatement of this peremptory wording, for a contract is binding if consent has been freely given, and consent is free if not obtained by coercion, undue influence, fraud, misrepresentation or mistake. It is seldom that a debtor can prove whether *bonâ fide* or otherwise, any of such vitiating circumstances, while the definition of 'undue influence' does not cover the case of a foolish or hard-pressed ryot under the seductive or persuasive powers of a usurer.

The result is a widespread feeling that many contracts are enforced by Courts which are really inequitable, and it is always objectionable that the law should be such that judges should be tempted to relieve poverty and ignorance by stretching a too narrow law. This feeling took distinct shape in the Deccan Agriculturists' Relief Act, and it is a question whether the general law of the country should not be amended in the direction of the German law (translated in another appendix), *e.g.*, by so widening the definitions in sections 14 to 18 of the Contract Act as to include "undue advantage or the taking "advantage of the necessities or ignorance of another to obtain unusual or undue "terms for a loan," it being left to the discretion of the Court, upon a consideration of all the circumstances of a case, including the respective position and status of the lender and of the borrower, to decide whether there was undue advantage on the lender's side and whether the terms of the bargain were unusual or unduly favourable to the lender.

This would further involve an alteration of the terms of Act XXVIII of 1855, so that a Court would not only not be bound to award stipulated interest but should be entitled to enquire into the circumstances of the stipulation, and a further power under the Evidence Act, to go behind the bond, and demand a history of each transaction. In this connection the provision of the Civil Codes of all Latin countries is germane; "dans le doute "la convention s'interpréte contre celui qui a stipulé, et en favour de celui qui a con- "tracte l'obligation"; (in cases of doubt a contract shall be interpreted in favour of the contractor of the obligation and against the stipulator), and in a vast number of loan cases there must be a great deal of doubt as to the equitableness, perhaps as to the *bona fides* of the transaction.

It is perhaps, unnecessary to discuss this point in full, since the matter is at this moment (1894) under the consideration of the Government of India, but it is permissible to add that the provision is advised merely as a temporary measure, pending the economic and educational development of the country, and the evolution of a banking, and above all a co-operative banking system. The grand principles ofthe sanctify and freedom of contract are to be worked up to; at present true freedom of contract is not, or at least is often not promoted but denied by leaving contracting parties free, and treating their contracts as though the results of free and equal higgling. But this new principle in legislation should be expressly recognized as temporary only; it is not good for a nation

* This illustration is taken from an actual judgement.

to accept as a permanent principle, that weakness and ignorance are to be swaddled instead of eliminated. It should be looked upon purely as an objectionable but present necessity; the existence of the law must not mean that usury is a permanent evil from which the law will deliver the foolish and improvident who carelessly place themselves within its attraction, and who count perhaps upon the law to escape from their bargains; it must be taken as an expression of public opinion that the trade of exploiting weakness and need with a view to selfish ends, is not a legitimate civil business; it must strengthen and accentuate public opinion towards a removal of the causes of usury, and towards the introduction of safer methods of credit. In such matters the legislature has directive and suggestive powers which should not be neglected.

It may be argued that such legislation will make credit dearer by intimidating capital and increasing the insurance element in a loan. This is not so, if the law be worked, as it will be worked, discreetly. The law against perjury does not affect true evidence or kinder true witnesses from coming forward, nor will a law against usury affect those who lend on fairly equitable terms, while it can hardly raise the terms of those whose demands are, even now, only limited by what can be obtained. The law will only be repressive of terms which can never be enforced in a Court; it will not affect contracts, which, though seemingly severe, are only in consonance with the risks to be run.

The law will not, of course, repress usury; the laws against theft have not abolished stealing ; it is intended merely to bridle and to limit, not to eradicate. For eradication there is but one final method, viz., the establishment of banks. But even that method, though as in Switzerland, it eradicated the usurer, will not eradicate improvident borrowing that eradication can only take place by a change in the people, and in seeking to bring about this change, the establishment not merely of banks but of Co-operative banks is a most powerful agent. One forcible argument, indeed, in favour of a more restrictive law against usury, is that it will indirectly tend to the establishment of banks; the peasantry will find that banks, with fixed and fair rates, open and honourable in their dealings, will never be subject to the repressive action of the usury law, and will desert the money-lender for the bank, especially when the bank is of their own creation and management.

Accounts.—In the bridling of the usurer there is a method never yet discussed, but of the highest importance, viz., a legal requirement that he shall keep permanent and clear accounts. In going behind the bond, in tracing out the history of a transaction leading up to a mortgage, or in settling an account between a money-lender and his client, it is absolutely necessary to have clear and fairly certain accounts. Those who, in income-tax or other enquiries, have had occasion to examine money-lenders' accounts, know that either the money-lender denies that he keeps any accounts, or that his accounts, when produced, are almost unintelligible, and that there is no certainty that all transactions are entered up: in the South they are very often a mere head load of cadjans on a string, of which any number may be subtracted or substituted at pleasure. It is perfectly true that many money-lenders keep no regular accounts; they are the ryot-lenders, who merely use their surplus wealth in lending to friends, tenants, &c. The following proposals do not relate to them, but only to those who make a trade of money lending and are assessed to the income-tax on such trade; such persons, whether urban or rural, sowcars or ryots should keep regular accounts; if it is worth their while to draw people into account with them, they are bound to keep full and clear accounts relating to them. Every public bank is bound, either by the direct rules of the law or by universal custom, to keep absolutely clear books, and to grant pass books to its customers; *see* especially the regulations of all countries regarding Savings banks, Co-operative banks, Building societies, and the like. Why should a similar trade be less carefully regulated because it is carried on by a private individual who has infinitely more interest in greed and fraud, and infinitely greater power both to commit fraud and to conceal it?

* "Finally, I would remark that if the Courts are to go behind the bond, it is "necessary to add a further provision to the law, probably to XXVIII of 1855, viz., "that money-lenders shall keep permanent accounts. The matter is somewhat outside "the bare questions propounded in the Government order under reply, but is extremely "cognate, and seems to me essential. I will, however, merely mention the outlines and "not discuss the whole question with which I have dealt in a section of my report on "Agricultural banks.

"The Special Deccan Commission, in section 40 of their report, consider that it "would be hard to require a creditor to prove the history of the debt 'where no accounts "'have been kept.' On the contrary, I would say that that is exactly a case where, if "the debt appears usurious, the history should be given. When regular accounts are "kept, the Court can easily trace for itself the history of a debt, and I contend that in "order to render the going behind a bond simple and certain and to render it less neces-"sary, all persons who make a practice of lending money should be compelled to keep "regular and permanent accounts in an intelligible fashion: a debt, *primâ facie* usurious "and without accounts, is a most suspicious transaction. But, in order to prevent the "application of this provision to ryots and others who so largely practise rural credit "in this presidency, I would limit this provision to persons whose specific trade is money "lending and who are assessed as such to the income-tax.

"It is practically universal in Continental Europe to require by the Commercial "Code that *every* trader (commerçant) shall keep certain books, wholly irrespective of "those others which may be necessary for his trade. These are generally a day book,

"showing day by day money due to and by him (ses creances et ses dettes), the operations "of his business, his receipts and disbursements under every head; he must also keep a "letter file, and each year he must make up in a register kept for the purpose, a "balance sheet showing his complete assets, the debts due to and due by him with the "value of each such debt. The day book and balance sheet register must be permanently "bound books, paged, initialled and sealed *each year* by the Commercial Court or by "the local mayor. The entries must be in order of date and without erasures, corrections "or lacunæ, nor must any pages be torn out. The penalty for incomplete or badly kept "books is simple bankruptcy; the concealment of books and entries entails fradulent "bankruptcy. These books must be kept for from ten to thirty years, with the vouchers "relating to them. The Commercial Court keeps a register of all traders, and notes up "each year the date of the production of the books for its visee.

"Such, or similar, are the laws of France, Italy, Spain, Russia—the Low countries, "Greece, &c., and to a certain extent of Germany and Austria. It seems to me that in "this country where the accounts are absolutely one-sided, where no ryot keeps any "pass book or private account, and where consequently the only history of a transaction "is with the money-lender, it is still more necessary than in Europe that books should "be, as far as possible, clear beyond suspicion, and should contain the whole history "of every transaction. With this view I would enforce the keeping of (1) a day book, "(2) of a ledger, the former containing entries as they occur, and the second containing "the postings from the day book to each individual's account.* The books should be "solidly and permanently bound, machine-paged, initialled and sealed by some public "officer of position or by the local Court. Every debtor should compulsorily receive a "pass book showing principal and interest separately, in which every receipt should "be entered by the lender when money is paid in, and the balance due at the end of "each year should be struck. Failure in any point should render the contract voidable "at the option of the debtor.

"These provisions, though novel, are simple and necessary. Money-lending by "professional money-lenders takes in this country, the place of lending by banks; it is "a universal trade. No general trade should be allowed without the due keeping of "books, especially when such trade is wholly one-sided in the knowledge and generally "in the advantage possessed by the parties. The law in England does not interfere "with the accounts of private money-lenders, as theirs is not a trade of any importance; "it does interfere very stringently with the methods and even accounts of the various "Loan, Credit, and Deposit societies, and such interference is continually increasing; "in the matter of pawnbroking, a trade parallel with one branch of Indian money-"lending, it interferes very decidedly. There is then no *à priori* reason against a very "moderate interference with the methods of a private trade in credit which, in India, "is practically universal and almost a monopoly, and in which while the clients are "poor, ignorant and necessitous, the lenders are well-to-do, influential and skilful. The "Revenue officers are compelled to keep for every ryot a complete register (chittah) of "his holdings and to give him a copy (puttah); to enter up in a permanent day book "(rozu) every receipt; to ledger such receipt against each individual (averza), and to "give a written receipt for every sum however trifling; I see no reason why we should "not extend to the money lending trade, some part of the formalities which we require "from our own public officers. It is not a question of interfering with private trade—"the usual bugbear in new commercial departures;—it is simply the introduction of "a few formalities, essential to due system."

Such are the only legal precautions recommended in the way of bridling the private money-lender: it is not legal provisions, but salutary competition and the development of organized, and above all co-operative credit, which will really render him innocuous by making him superflous.

Homestead Exemption.—As mentioned in the chapter on Western indebtedness, the United States have unique laws for the exemption of certain property from sale in the execution of Court decrees. Amongst these items are houses and lands up to a certain area or value; the provision may be compared with a similar exemption in the case of deposits to a certain amount held in various provident institutions, such as Building societies (Co-operative banks). The provision amounts to a denial of the right of mortgage upon such areas of land, and is intended to prevent the absolute pauperization and expropriation of a debtor. While excellent in this respect, it cannot be doubled that the provision *pro tanto* raises the price of credit; and is therefore one to be most cautiously introduced, if introduced at all, into this country; possibly, however, it may be a useful compromise between the views of those who would take away altogether the ryot's power of mortgage, and those who would leave him to burden himself, his land and his industry, at his own too careless pleasure. A section has accordingly been added to the Draft Bill in the form of an addition to section 266 of the Code of Civil Procedure, exempting houses of a value not exceeding Rs. 50, and lands not exceeding a certain small area, from Court sales for debt, even where such houses or lands may have been specifically mortgaged: provision has, however, been also made for exempting all banks from the operation of the clause when the debt is due for loans granted for *bonâ fide* improvements on the land, and also for exempting altogether such Co-operative and Savings banks as may be specially privileged to that effect by the Local Government. The section is a tentative suggestion rather than a distinct recommendation, since the change in the law would have a very wide effect.

CHAPTER VI—REGISTRATION.

There are two principal methods of passing the title to or recording charges upon land, viz., that by registration in public offices and that by mere deeds. In the former system,—that of Prussia and of the Torrens Act (Australia chiefly),—the private deed is of no use or validity except as evidence of the terms of the contract; it is the entry in the public register which alone validates the transaction or the succession; hence under such a system every person interested in or fact relating to a property must, of necessity, be entered whether it be the names of co-sharers or encumbrancers, a sale, a mortgage or a 'privilege' such as the right of a landlord. The method of recording such titles or encumbrances is simple in the extreme; a folio is devoted to the parcel of land (estate, farm, or field) in which are entered its description, owner, history of his title, and all other material facts; every change in the status or ownership of the parcel, or any charge upon it, must at once be entered in the folio, and nothing is valid till such entry. Obviously, then, it is only necessary for an intending purchaser or creditor to turn to the folio and ascertain by a single glance, whether he can safely buy or lend.

The other system is that of England, where registration is nothing, but the deed everything, so that the ascertainment of title is lengthy, costly and wholly uncertain in its results. It is also the system of India, but matters are here mended to some extent by the Registration Act, which compels the registration of all documents relating to immovable property of Rs. 100 and upwards; all documents of sale or mortgage below that sum are optionally registrable, but—by the Transfer of Property Act—sales and usufructuary mortgages of less than Rs. 100 need not be committed to writing, and are therefore not subject to registration. The result is that while, owing to the absence of registration of title and the peculiarities of Hindu and Muhammadan laws, it is almost impossible for an outside purchaser or creditor to ascertain title, it is possible, by searches in the registration offices to ascertain whether land is encumbered or charged, there being, however, two principal difficulties even in this, viz., (1) the provisions of the Transfer of Property Act above alluded to, (2) the cost, labour, and uncertainty of searches in the indexes. The latter difficulty is now under removal by the substitution of new forms of index (G.O., No. 199, Revenue, dated 10th March 1894); and by the proposal to compel the entry of the survey number of the fields in all documents; the former can only be eliminated by an alteration of the law as apparently proposed by the Government of Madras in the G.O. above mentioned.

There can be no doubt to a student of European land transfer and credit, that the Prussian or Torrens system of registration of title with its validation of all successions and transactions by entry in the land registers, is the system of the future, and must eventually be introduced into this Presidency whether in its present or in a modified form. The matter is partly dealt with by the present Inspector-General of Registration in his letters concluding with that entered in the G.O. above mentioned, but it is one of immense difficulty, owing principally to the intricacies of the Hindu and Muhammadan laws as to co-shareres, the status of lands, viz., whether acquired or ancestral,—the former becoming ancestral in the second generation,—and the rights of managing members. Its discussion has consequently been omitted from the present report, since, to deal adequately with the subject, would require much special knowledge and lengthy treatment, such as cannot easily be afforded in a report upon banking credit. Still, it would have been needful to discuss the matter with some fulness, had it appeared necessary that. for the purposes of introducing rural credit, that system, or some similar one, should be adopted. This, however, does not seem to be the case. As elsewhere shown, the main credit to be granted in this Presidency, at least for years to come, will be very small, continuous, short term credit, with a moderate number of mortgages; in some districts where cheap credit is badly needed, mortgages are hardly found at all. Such credit, including all the small mortgages—below Rs. 100—which form half of the whole number, and many of the larger mortgages, can most conveniently or even solely be granted by village banks; these banks by their local knowledge and influence do not require the registration offices as preliminaries to loans; the directors are fully acquainted with the status and title of the borrowers, who, moreover dare not, from their position as co-members of the bank, and still more as co-villagers, defraud the bank by concealing encumbrances or otherwise. The Nidhis are proofs of this fact; even where the operations of the Fund extend beyond the precincts of a single village, the directors, one or more of whom reside in each village, are able to ascertain the title, &c., of the borrower without difficulty, and can grant loans without danger or refuse them without undue hardship to the borrower.

Moreover, it is easy to secure mortgages not merely by a clause in the loan deed, rendering the borrower responsible for any defect,—a useless entry when the strongest sanction for honesty lies in the possible ostracism by co-members and co-villagers,—but by the coupling with the borrower of personal sureties, who will certainly refuse to act if they are not personally aware of the status and title of the borrower, and of the freedom of his estate from encumbrances. The private money-lender lends freely on mortgage without consulting the registration offices, and the village banks will have still larger and more interested sources of accurate information. It is only a Central bank, *i.e.*, one having a taluk or more as its area of operations, that may require to use the registration offices, and the establishment or usefulness of these does not appear probable.

Hence it has been thought unobjectionable to postpone the discussion of a development of the Registration system for a more fitting opportunity and with more complete knowledge.

CHAPTER VII.—RECOMMENDATIONS.

It remains to consider what form of institution is best adapted in this presidency for rural credit, the difficulties in the way of the banks and the best means of promoting them and their well-being. The postulates of credit mentioned in the general chapter on 'credit,' viz., proximity, the security of the lender, and facility and safety to the borrower, will be assumed, as also the correctness of the axiom that credit must be based on thrift, that is, that the thrift of lenders shall provide the funds for the use of thrifty borrowers.

The form of the banks.—No central bank, not even a district bank, can satisfy the conditions of "facility" and 'proximity,' when the borrowers are the village folk the great mass of whom hold lands assessed at less than Rs. 30, nor can they look at rural credit business when the loans are, as in this presidency, the petty loans evidenced by registration, court and other statistics. The vast bulk of all loans are below Rs. 50; even mortgages below Rs. 100 number half the total mortgages and average only Rs. 44; the records of the civil courts tell the same tale, since, in this presidency, for 1893, no less than 59.4 per cent. of all suits, exclusive of those in village courts, were for sums below Rs. 50 including the interest claimed; if village courts are included, the proportion is 68.9 per cent. Again, including village courts which tried 61,000 suits, the percentage of all suits below Rs. 20 was 45.25 per cent., so that nearly half of all suits were below Rs. 20. This being so, it is clearly useless for any bank outside a very small circle, to think of supplying the country side with the credit it needs. Nor is it conceivable that the borrower could obtain from such a bank either facile, cheap or safe credit; the expenses of enquiry, the risks of loss on petty loans to unknown persons, would preclude facility, while the element of safety would be largely wanting since 'safety' requires that the destination of the loan shall be a productive one, that it shall be used, in production or towards economy, and that money shall only be borrowed for such purpose. Credit banks cannot and do not enquire the purpose of a loan provided the security is sufficient, whereas it is of the essence of village credit that the lending institution shall be a powerful aid to the borrower in checking extravagance and in suggesting useful outlay.

Nor is it possible that State banks should satisfy the need for rural credit. Still less than central banks can they satisfy proximity; their agents indeed may be amongst the people, but a paid agent is merely a machine to pay out, to receive, and to enforce hard and fast rules; the loans might be made secure to the lender, but solely by the overwhelming powers reserved by the State creditor, while the safety of the borrower, except as regards loans similar to those under the Land Improvement and Agriculturists' Loans Acts, would fail of being met, since the State can hardly influence the individual in the matter of prudence in his individual actions. The borrower need not be thrifty, nor would the loan proceed from voluntary savings but from the national taxes, unless the State deliberately utilized the funds of the Savings banks in such loans. But it is difficult to see how the State could ensure that its loans should be granted only to thrifty persons and for productive use, unless they were limited, as now, to improvement loans; this, however, is not what is meant by 'rural credit.' There are, further, overwhelming objections to general State credit; such are the enormous amount of necessary business with the consequent abnormal development of a bureaucratic agency which, *ex hypothesi*, would interfere in the daily affairs of every man's life; the gigantic sums required for the supply of general credit; the development of the habit of leaning upon the State, and of identifying it with the prosperity and misfortune of the people; a tendency to regard the State creditor as a money-lender, who, especially under the popular delusion of the State's illimitable wealth, could bear to lose individual debts; the odium attached to the State as enforcing, as it would be bound to enforce, rigid punctuality and complete repayment of dues; the political objections to a State assuming the position of general creditor with the consequent temptation by its debtors to general repudiation; the interference with private trade and the stifling of all efforts at self-help.

Central banks and State banks being thus found objectionable, it follows that what will be chiefly required for the credit work of the Madras districts, are small, local, locally worked institutions on the lines of the European village institutions; it is Village banks, not District or even Taluk banks that are required. It does not appear probable that institutions like the great Scotch banks will ever arise to send out their thousand branches and agencies into every village; the genius of the people and the absence of a note circulation by banks, seem to rule out this possibility. In the absence of great institutions with the peculiar ability of the Scotch banks, the only alternative is the local Village bank which satisfies the postulates of proximity, security, and facility, and, in one form or another, is found in thousands of instances in Europe and America; such are, the small Swiss Joint Stock banks, the Popular banks and Loan societies, the Savings banks, Building societies, Positos, &c. In one form, moreover, viz., that of the co-operative Village bank, it satisfies the final postulate of true credit, viz., that of 'safety' to the borrower.

The decisive advantages of village banks are as follows: (1) their absolute proximity to the borrower; (2) their ability to excite local confidence and consequently to draw in local capital; (3) their exact knowledge of their clients and their influence over them as co-villagers; their consequent ability to prevent fraud and to dispense with searches in Registration offices; (4) their power of making the smallest loans and of undertaking operations, however petty, in consonance with village custom and individual needs; in fact, of *giving preference* to small business; (5) their ability to dispense with any prior

general liquidation of debts such as has been demanded as a preliminary to the establishment even of Taluk banks; they would ascertain in each case the borrower's prior debts, arbitrate with the creditor for a favourable settlement for cash down, pay down the sum settled, and accept the debt as due to themselves; (6) their ability to work cheaply, almost gratuitously, and thus to provide cheap credit; (7) their retention of local capital and of all profits thereon, within the village, and, in the case of co-operative societies, their retention of all profits for the members and borrowers; (8) their ability to act as agents and brokers for their members, in the sale of produce and purchase of necessaries; (9) their capacity of acting as village granaries, lending grain for maintenance and seed in ordinary years from their own resources, and, in times of distress, from those resources supplemented by State or other grants; (10) their ability to act as intermediaries between the State and the individual, whether in matters of loans for land improvements, cattle, &c., or in other agricultural or industrial developments, or in times of seasonal stress; (11) their power of influencing borrowers towards the true use of credit, and of watching the utilization of loans in accordance with contract; (12) their ability to prevent fraudulent defaults and collusive sales of property, and, in cases of default, to utilize advantageously the small properties accepted as securities for loans; (13) their tendency—in the case of co-operative banks—to group themselves into unions for mutual development, instruction, inspection, and audit; (14) their steady, educative influence in matters of thrift, association, and self-help, by their continuous presence in the village, by their continuous object lessons, and by their frequent, though small, calls upon the activity, thought, and service of their members; (15) their tendency to develop high forms both of individual capacity, of public life, and of national character.

These Village banks, then, may assume several forms; they may, as Joint Stock banks, imitate the ' minuscules societies anonymes per actions ' — the tiny Joint Stock banks—of Switzerland, with their little knot of capitalists and their share capital of a few hundred pounds; they may possibly assume the form of the State aided Communal banks of Alsace-Lorraine; they may be Savings banks in origin, dealing in credit merely as a mode of placing their funds either directly to borrowers or indirectly through loans to credit banks; they may be Nidhis either of the present or of a developed type, developed in their power of safely attracting capital, and of giving long-term loans; they may be village granaries storing surplus grain at harvest, and lending it out among the ryots for seed in the cultivation season; they may be agricultural associations with credit annexes, a most desirable form of institution; or finally, and most desirably, they may be true co-operative societies and banks, operating through, for, and upon the members, stimulating and collecting their savings, calling forth habits of thrift, economy, and prudence, guiding their outlay into productive channels, giving them credit for productive and useful purposes, promoting co-operative dealings in sale or purchase, and stimulating activity, union and associated action among the too isolated units of village life.

Difficulties in the way of banks. While it is desirable to develope the suggestive and educative functions of the law and of the executive in the matter of thrift and credit institutions, and to give, by law, certain privileges to societies established to promote national thrift, providence and productivity, it is to be remembered that neither the existing law nor the Government, nor the state of society, offers any actual obstacles to the establishement of any class of bank or benefit association; if the law does not suggest, it does not prevent: if the executive does not help neither does it hinder; if the conditions of society are not all that can be desired neither are they specially unfavourable, German co-operative law assists and promotes co-operation, but co-operative banks and societies existed before the law, and the law is the result, not the cause of their existence. Yet the obstacles presented to the formation of such societies in Europe in 1850 and succeeding decades were not less but greater than in this presidency at the present time. The law regarding societies was restrictive, while the executive looked askance at all associations; non-trading societies were suspected of being political clubs, and even the Schulze-Delitzsch Associations were attacked by the police authorities as not warranted by law; no Joint Stock Company could be formed in Germany—until the new commercial code of 1884—without the express authorization of Government; in France no associations of artisans or agriculturists were possible until the law of 1884, which modified the Revolutionary law against trade guilds; the English law in the matter of trade unions is well known. Fiscal burdens in Europe were and are extremely heavy; stamp and succession duties, income-tax and other charges, together with—in Italy—a charge for Government supervision, are a real burden. Communications, viz., the railroads, post and telegraph, were, in 1850, inferior in Europe to those now existing in this presidency; the press was but developing; education was generally backward, the peasants not only poor and burdened by usury, but suspicious and conservative to the last degree, while their land tenures could not compare in some countries with that of the Madras ryot; the Courts were not and are not purer, prompter, or more accessible than they are in this presidency; the people, the peasant masses, were but beginning to be considered as factors in the State.

Here in Madras there are few such obstacles; the right of association is absolutely unhampered; for any purpose whatsoever men may unite unquestioned; stamp duties though a burden, as are all fiscal charges, are lighter than in Europe, and are no hindrance to trade; the income-tax is only half of the similar tax in Europe, exclusive of England, and is far less sweeping in its actual incidence, owing to the numerous de-

ductions allowable under it, while the minimum income chargeable is higher, when the comparative value of money has been allowed for, than that generally chargeable in Europe; succession duties among the people generally are unknown, so that shares and deposits in societies pass undiminished to heirs; communications are good and very cheap; the press is becoming a power and may at once exercise most beneficial functions in the matter of societies; education, though backward, has reached in a high form, a very large number of men who are spread throughout the country, while the assistance of an immense number of men, trained in the service of the State, is available; justice is fairly pure, prompt and accessible, and the Village Courts provide a resort for small debts unequalled in the world; the commercial and social ideas of the West are, through the press and other communications, absolutely open for the imitation and guidance of the East, so that the errors and difficulties of pioneer societies may be avoided; the peasantry are not unaccustomed to combined effort, while the Government ryots, possessing their land in perpetuity, and with, at worst, a settlement lasting nearly twice as long as the Scotch leases which have made Scotch farming what it is, with full transfer, and mortgage rights, and not unskilled in their hereditary art, are in status fully the equal of the ordinary German and Italian peasant amongst whom co-operative societies have so splendidly flourished.

What is wanted more than the mere administrators is the men of initiative, enthusiasm, and prescience who will introduce the idea and force it into practical shape; men of intelligence, philanthropic intention and foresight full of zeal for reform, persistent in effort, and ready to work out, though on the humblest lines, the details of the future systems. It was only by the most devoted and unwearied effort, not merely in lecturing and writing, but in working at the details of an actual society, correcting errors, introducing improvements, encouraging the faint hearted, that Schulze-Delitzsch and Raiffeisem, Luzzatti and Wollemborg, forced their ideas into public recognition; it was the unwearied efforts of one or two men who made English Savings banks what they are; it was the few artisan pioneers who at Rochdale laid the foundation of British co-operative distribution; it was one or two enthusiastic men who, when the law of 1884 legalized Agricultural Associations in France, preached and guided the idea with such fervour that within 10 years, above 1,200 such associations, with above a million members, have already sprung into existence. Similar men with similar enthusiasm are needed for this presidency; men who, living among the people in the small towns and villages will actually work out their ideas into practical shape. This is already in actual process to some etxent; the Nidhis, without legal or executive assistance, have made for themselves a certain position by the efforts of a few intelligent men; that which is lacking is the advent of men, who with wider knowledge of method, with larger ideas of co-operation, with greater enthusiasm for the general spread of ideas regarding national thrift, providence, mutual and self-help, and productivity, will apostolize the movement by giving the labour of their life to the working out of the problem not on paper but in fact. The difficulty seems great, but—*solvitur ambulando*—; each theoretical difficulty falls when attacked in practice. Theoretically, for instance, the question of title and encumbrance is considerable; that difficulty does not exist in reality as the Nidhis have proved; no local society fears such dangers, for it has perfect knowledge of the borrowers, while the borrowers dare not deceive the lenders who are their own friends and neighbours.

It will, however, be well to describe in somewhat greater detail the objections which have from time to time been raised in regard to the establishment of banks. In the course of this study various reasons have been suggested as hindrances or difficulties in the way; these may be classed under the heads of social, commercial, fiscal, and legal; it is significant that not a single correspondent has raised any difficulty as arising from the executive.

Social are (1) want of initiative; (2) novelty and absence of mâmûl and ignorance of banking methods; (3) ignorance of the co-operative idea; (4) inability to adopt association as a working system; (5) want of men of devotion and enthusiasm who will apostolize the movement.

Commercial are (1) general ignorance of the facts relating to rural credit and needs; (2) unattractiveness of rural business to commercial circles; (3) timidity of capital in venturing on the unknown; (4) failures of previous attempts; (5) want of men who will manage rural banks; (6) difficulty of attracting capital; (7) difficulty of attracting customers; (8) absence of trustworthy agents, and difficulties and cost of supervising and paying them; (9) risks of bad business by want of trustworthy inspection, &c.; (10) difficulty of dealing with an immense mass of petty work and loans; (11) unbusiness-like habits of ryots; (12) opposition of the money-lender; (13) the hope of obtaining large privileges; (14) difficulties due to prior debts; (15) difficulty felt by ryots in getting annual loans if property is mortgaged to a bank; (16) difficulty both to ryot and bank when an important improvement results in failure; (17) difficulties of giving loans for improvements on unimproved land; (18) difficulty of granting credit of all classes by the same institution; (19) want of supervision.

The *Fiscal* difficulty is the weight of taxation, stamp duties and other charges.

Legal **are (1) doubts as to security by reason of the family system; (2) doubts as to title by the absence of a system of registration of titles; (3) doubts as to prior encumbrances by the absence of proper registration indexes; (4) difficulties in the recovery of debts; such as delays, cost, uncertainty, &c.; (5) the provision of the revenue law by which property sold for arrears is sold free of encumbrances; (6) difficulty due to periodical revision of assessments; (7) difficulty in the way of lending to Zemindari ryots.**

Social difficulties.—These are real ones; when the banking idea has absolutely no place in the rural mind, when hoarding in walls and roofs is universal, savings and deposit banks unknown, the habit of getting in the idle money of the public for productive distribution wholly foreign to the customs of the country, credit on fixed terms and by fixed rules undreamed of, indebtedness in the sense of living on the advances of a money lender or broker habitual, and the rural population suspicious of all that is not according to custom, there will be great difficulties in fostering theideas and methods of banking institutions. Still more must this be the case where a country has suffered from centuries of trouble, where each village formed a municipium and every one outside of the village was a possible enemy, where communications were bad or non-existent and external trade almost unknown, so that all wealth was concentrated in the self-contained village, and wealth if it left the village, left it permanently in submission to external force. In such a country private hoarding will be customary and adhered to pertinaciously; money will rarely be invested even in Government loans, since Eastern Governments have been used to borrow but not to return; no confidence will be placed in companies—again a Western invention—or banks outside of the village. Hence as mentioned above, it is men of initiative and devotion who are required to preach and push the new idea, but above all, to sit down quietly and work it out in his own immediate neighbourhood. It is not true that internal village association is an unknown idea; on the contrary, communal life is still strong in the villages, and in many matters affecting agriculture, village festivals and the like, associated action is habitual; there are numerous men who in the villages daily deal with matters much more complicated and difficult than the mere granting of small loans to neighbours, as for instance the regulation of the water-supply to the fields from the tank, especially when water is scarce and claims are opposed.

But the objections apply far less to the establishment of village banks than to that of central banks; association is common among villagers, and can be trained to the new method; money will flow into a village association which would not be trusted to an outside or, at all events, distant society; the villages which are already proved capable of establishing 'chit' societies and Nidhis, can establish other savings and credit associations.

Commercial difficulties.—These objections are also valid in some degree when viewed from the standpoint of urban capitalists who seek investments for their funds in banking ventures. The banks contemplated by such persons are the central banks of large capital and extensive operations, spread over thousands of square miles and having, as clientele, a selection from the richer classes. Obviously to such banks the petty business of the millions of small folk must be unattractive; each operation needs a separate enquiry by paid agents; the charges of such agents, the risk of unfaithfulness or rashness, the smallness and uselessness to the bank of the security offered, the difficulty of recovering or suing for such petty loans, the immense risk of loss by the mass of petty transactions with unknown, obscure and probably unpunctual borrowers, the actual cost of each enquiry and the preliminaries to each transaction, in other words, the absence of proximity and security to the bank, entirely prohibit the engagement of business men and trading capital in rural credit.

But these difficulties, which are not only genuine, but which are precisely those which have prevented the small folk of Europe from access to banking credit, and which have deterred the abundant investment capital of Europe from finding its way to the peasant farmer, do not apply to village banks; the villagers are perfectly acquainted with their need of capital and credit and with the operations for which credit is needed; there is no mass of demands from unknown persons on ill-known security, but simply the requests of a few persons whose status, property and needs are perfectly known to all; there is no need of agents, for the work is at their doors; the borrowers cannot make default for that would mean social ostracism and ruin; the village court is at hand for all dues or delays; if there is final failure, the lands and property of the defaulter are precisely those which are most in demand by the co-villagers; the capital of the bank, even if attracted from without, is retained and spent wholly within the village; there are no periodical withdrawals from the village of capital to meet the demands for increasing dividends of shareholders and directors, but merely the fixed interest on the deposits or debentures. As for the management of the banks, the men of the village are as competent to deal with these individually small and simple matters as with the more complex questions involving rival claims to lands, to water, or to village honours, or involving the numerous accounts demanded by a modern administration; the success of many village Nidhis proves this, and as the idea roots and spreads, supervision and extraneous assistance will not be wanting. As for the opposition of the money lender, the experience of Italy, Switzerland, and Germany proves that this is of no avail; the bank will always oust the usurer, nor is any complicated process necessary; the bank lends the money, possibly arbitrates between creditor and debtor, the debtor pays off his debt and gradually repays the bank at 6 instead of 60 per cent. It is, perhaps, in this point that village banks are so successful; there is no need for a general liquidation of debts over a taluk, no white-washing of an extensive clientele by Government and the delivery of the clientèle bodily to the bank; there is simply the individual debtor who comes with his usurious account to the bank, gives an inventory of his property which is perfectly well known to the bank directors, borrows the money and pays off the usurer; there is nothing heroic, nothing extensive or difficult, but a

quiet, gradual extinction of debts, debtor by debtor. What is needed is simply the little village bank started by prescient, enthusiastic men of business, who will assist the villagers by personal effort and devotion; the rest is easy.

What has largely delayed the starting of banks is the idea that they must be the work of capitalists in the ordinary sense—the sowcars, the men of means; that they must be at least Taluk or District banks, so as to command cheap capital. It is from this cause that extensive privileges have been sought, such as prior liquidation of debts, a prior State interference on an overwhelming scale, an experiment in State intermeddling of the gravest character, all to the end that certain capitalists might make sure of starting the bank as a going concern with a big white-washed clientele delivered by contract into their hands, with a monopoly of business in the taluk, and Collectors as their bailiffs; it is the idea not merely of central banks, but of handsome dividends that has misled suggestions and public ideas into the wrong direction: the humble village bank, with its clientele literally at its doors, and developing local credit not as a means of earning dividends for distant, outside shareholders through unheard of privileges, but as serving the needs of the members of the bank, will by its establishment, brush aside all the difficulties hitherto put forward by promoters in the hope of obtaining wide privileges and correspondingly handsome dividends. The village bank, again, removes the difficulties mentioned in (15) and (18); these village banks, can give all classes of credit, since the transactions are all on a small scale and with perfectly well known clients; a village bank can readily give an advance for maintenance upon a growing crop, or a loan for the purchase of stock upon which, by a bill of sale or privilege (see 'draft bill') it will have a prior claim, even though the farm lands may be under mortgage to the bank.

The difficulty mentioned as (17) is serious; all that can be said is that, as in the Scotch banks, a loan in the form of a cash credit can often be given to a ryot whose general status and, especially, character are good, and with this the improvement can be effected advances being drawn only as the work progresses; the special well rules under the Land Improvement Act are applicable, with the additional securities that the character of the applicant will be a factor in the disposal of the application, and that the due application of the loan, and the progress of the improvement can be immediately and frequently supervised by the bank directors.

Difficulty (16) is also serious; it occasionally happens that a well is dug at large cost but fails; a tank is made but breaches; a tope is planted, but the soil proves saline or unsuitable. Even in this case, however, the bank is covered by the security it has taken and the borrower bears the loss; he is no worse off in borrowing from a bank than from an ordinary lender, while the terms of his loan are probably much less onerous. Moreover the risk can be minimized, and, if transactions are numerous, even eliminated by a proper method of insurance, by which the ryot can be indemnified for his loss or freed from his debt on payment at the time of the loan, of an insurance premium, which may be deducted as a percentage from the loan amount.

The want of supervision has, however, been a real difficulty; very many Nidhis have been started and fallen into ruin, not so much from fraud but from sheer business incapacity or negligence, which might have been prevented by extraneous advice and assistance. Control is not necessary; on the contrary the principle of self-help demands autonomy, but autonomy and self-help do not preclude advice or even assistance. In the case of co-operative credit societies this is provided by the Unions of societies, which provide examiners for audit and for general assistance, supply information, and even arrange for pecuniary support by way of loans from the richer to the poorer banks by the intervention of the Union. But till such Unions are formed the State may supply the want, every care being taken to avoid such support as will weaken rather than strengthen. Moreover, State supervision is not undesirable even as a permanency; it is not only found in Continental Europe and in England, but notably in the United States, while in England the supervision of co-operative, building, friendly Societies, and savings banks in an *increasing* degree, is an actual and most modern fact, as in the savings Banks Act of 1891, the Building Societies Act of 1894, and the proposed (1895) legislation for Friendly Societies.

While village banks are thus indicated as a means of turning the difficulties which do exist, it is suggested that other banks are not impossible; banks, especially for mortgages and for land improvement, which can lend sums of Rs. 500 or Rs. 1,000 are desired for the larger class of farms, and then, beginning in their immediate neighbourhood, can extend their operations through their members, after the fashion of the German Land Banks, provided that dividends are not the primary object of the banks, but mutual credit. It is difficult to conceive of a central bank,—using the word central to mean even taluk,—which should succeed in earning sufficient dividends in the first few years of its existence by means of its necessarily small transactions; mutual banks might succeed, and might be encouraged by Government with subventions or guarantees, so that the expensive and troublesome State loans for land improvement might be gradually abandoned.

The difficulty of financing the banks, of attracting capital is usually considered serious; it was so considered in Europe until the village banks solved the question by simply starting: they have never lacked for capital even when working in usury-ridden tracts. Doubtless the general principle of unlimited liability has operated to attract

capital, but the Italian Popular banks are not founded on this principle but on that of a share capital. This matter is dealt with in a separate section below.

Fiscal difficulties.—These are not serious as a charge upon the banks they are simply the stamp duties on the memorandum of association, the charge for registering the memorandum and articles, and the income-tax. Should the banks borrow either by debentures or otherwise they are liable to pay the stamp and registration duties on the bonds. It is proposed that for village banks on the co-operative principle these charges for registration of the memorandum and articles should be entirely abolished, as also the stamp duties on the same documents, and that stamp duties and registration charges on loans below Rs. 100 issued by the banks be reduced by one-half; for loans taken by the bank, *e.g.*, by the issue of debentures, a very slight alteration is made, to favour the issue of debentures of small amount. For village banks on other principles, no particular concession need be granted, except in the matter of debentures as above. It is not proposed to remove the income-tax, especially as it will be within the power, as it is within the duty, of all mutual or co-operative banks, to avoid the tax by reducing the cost of loans, so that profits chargeable to the tax will not exist.

Legal difficulties.—The first five are fully dealt with in the chapter on 'law' and in the draft bill, and in the chapter on 'Registration.' The sixth is not a serious objection; it is not found that the periodical revision has any effect upon the sale or mortgage value of land in private transactions, the fear, expressed in theory, as to the result of such new assessments, being eliminated in practice by the knowledge that no considerable or ruinous enhancement will take place; moreover the margin which every bank provides for such and other contingencies by the difference between the actual value of land and amount lent, sufficiently covers such risks, especially when added to the fact that all long time loans are, *ex hypothesi*, to be repaid by instalments on the sinking fund principle so that the margin between the amount due and the actual value is often very large. Further it is to be noted that as the settlement period is 30 years, only loans taken in perhaps, the last decade will be affected, and it will be open to the banks to discount any risk or depreciated security by widening the margin between the loan and the market value.

The seventh difficulty cannot be got rid of by any banking device. Suffice it to say that it only exists as regards mortgages, and for those only in a very limited degree mortgages and transfers being, practically, as feasible and complete in the southern zemindaris as in the Government lands. As regards ordinary loans on general status, village banks in zemindaris will be exactly in the same position as similar banks in Government villages.

But, while there are no insurmountable obstacles in the way of establishing banks, the way may be made smooth and easy by the operation of the law and of the executive authorities. These matters are specially dealt with at length in the chapter on 'law,' and in the draft bill, to which readers are referred; a few remarks are necessary regarding the provision of capital, the due management of the institutions, and the supervision desirable or necessary.

Capital.—The capital of a bank is either a working or a guarantee capital; it is either paid up, subscribed, or merely guaranteed. A bank, however, if it is to fulfil its complete functions does not rely on its own subscribed capital for its operations; its efforts are directed to attracting outside capital which may amount to many times its own capital, and this attracted capital is the source of its usefulness; it encourages thrift by getting in useless hoards and petty savings; it promotes productivity by utilizing these funds in loans. A bank which deals with its own subscribed funds only is defective in both ways; it does not fully promote savings, and it wastes its possible opportunities in granting credit. Herein lies a cardinal defect of the Nidhis and of all societies of that type; they depend almost entirely on the monthly subscriptions of their members; they promote thrift only among their members; and they can grant loans only from the insignificant sums thus gathered in, with the result that, since three out of four members desire to borrow, such borrowers are forced to wait their turn, often for many months, by which time the opportunity has passed or they have been driven to the money lender. Using their capital in loans and as a rule without a reserve, they have no tangible security to offer for deposits, which, consequently are not found except occasionally, and always to a very moderate amount.

Capital, on the contrary, should be used chiefly as a collateral guarantee for deposits and debentures; it may, in such case, be either paid up, subscribed or merely guaranteed. In America, it is usual for the banking laws to provide that the whole capital of a bank shall be entirely paid up before operations can begin—a precaution to ensure that the bank is a *bonâ fide* institution, and not a mere fraudulent trap. The bank is then compelled to invest a proportion—10 per cent in New York with a fixed minimum—in certain securities which are deposited with the Government Superintendent or Commissioner of Banks as a collateral security for depositors and creditors. But the law of the several States also provides, as a rule, that the shareholders of banks shall be liable, in case of liquidation, to a further amount or addition to the par value of their shares; in New York, it is an additional amount equal to the full value, so that a shareholder for 1,000 dollars must first have paid up his full share subscription, and in case of liquidation is liable for a further sum of 1,000 dollars. This gives immense additional security; the whole capital may be wasted and yet the full nominal capital is available as security;

the rule also tends to interest shareholders in the operations of the company. Here the Nidhis are again defective: all losses must come upon investing, *i.e.*, non-borrowing members only: these are liable in case of liquidation for the remaining balance on their shares, and thus lose their whole investment, whereas borrowing members, though they must also pay up the full value of their shares, merely, in so doing, repay their loans, and thus lose nothing.

A further method of using capital as a guarantee is to provide that part of the capital shall not be called up except for liquidation; this 'reserve' capital provides an excellent security.

Guarantee capital is either that which is contemplated in the Companies Act when the partners agree to guarantee a given amount, or is that so general in the Mutual Land and Popular banks of Europe, viz., the liability of all members in all their property for the engagements of the society. In this case there need be no paid up or even subscribed capital; a member becomes liable, even if there is no such thing as a share, by mere membership, as in the case of the ordinary partnership associations. Of late years the co-operative law of Germany admits, for co-operative societies, a liability limited to a proportion or to a multiple of the share capital held by the member in addition to the original; this corressponds with the American method above noticed. This latter method does not appear to be recognized by the Companies Act, and it is recommended that in order to secure depositors and creditors, and thereby to attract outside capital the word 'limited' shall be extended so as to admit of societies with a capital of any of the above descriptions.

There is a class of capital in use in Europe for the establishment of mutual and Savings banks, which is not generally found elsewhere, viz., that of 'founders' shares.' These widely differ from foundation shares in English companies, which are preference shares and tend to absorb dividends, while the 'founders' shares' are really subscriptions at favourable rates of interest or without interest, intended either to provide the first, working capital of a bank, or to form a reserve in the early days when no reserve has been accumulated; sometimes it is a mere guarantee fund either for the good conduct of the subscribers or for the safety of the depositors, as in the Italian Savings banks. It is not improbable that in this Presidency, where the unlimited liability of Europe is improbable as a principle of association, the well-to-do might find founders' shares a method of assisting the establishment of banks without involving any loss or any serious risk; founders would, by their position, as well as by their subscriptions, have a weighty vote in the management or affairs, and would tend to secure safe methods of business.

The question arises whether these several methods will provide the capital required for the working of the village banks.

The experience of Europe is that village banks with unlimited liability, and the Italian and Austrian popular and village banks with liability limited by shares, obtain abundant capital partly from the ordinary public, partly from savings banks. In this country there are no data: the Nidhis are not established for deposits, and have little tangible security to offer for them; they do, however, in some cases obtain deposits, but these are usually either the money of the directors or of a few personal friends; they are not the deposits of the public (*see* 'Nidhis,' *s.v.*, 'deposits,' and Nidhis A and B *ad finem*).

Nor is there in this country that mass of middle-class investors, or of salaried artisans and others who form the small investment holders of Europe and England. There is a great deal of hoarded capital in the country, but being chiefly rural, it will be attracted but slowly, although village banks will attract more readily than large outside banks. The savings, however, of the official and professional classes are considerable, and now that Government paper yields only 3½ per cent., banks known to the investors, in whose directors they have confidence, and which offer 5 or 6 per cent. to investors, will probably attract considerable sums. There is no doubt, moreover, that if 6 per cent. can be obtained, the funds of many so-called money-lenders, that is, of persons who now lend out money, not necessarily on usury, will flow into the banks.

It is to attract such funds that the guarantee offered by the share capital must be considerable in quality; the capital of the Nidhis is the feeblest possible guarantee, for it is largely paid up and all invested in loans of indeterminate value, while there is *no* reserve; an ordinary share capital, either wholly paid up and part invested in first-class securities, or only partly paid up and part retained as an inalienable and unpledgable reserve is better; the same, with the American plan of a further liability of shareholders in addition to and proportionate to the value of their shares—a plan not very dissimilar from that of a share capital limited by guarantee, as in the Companies Act—, is a still better guarantee for the attraction of investments; and where, as should be made obligatory by law, a strong reserve is formed and invested only in first-class securities, there is every ordinary guarantee for capital, in the absence of that unlimited liability which is made the keystone of the German co-operative societies.

State Pecuniary assistance.—It may, however, be advisable, possibly necessary, for Government at first to assist the nascent banks either by loan or guarantee. The loan may be either assistance in working capital, or a mere guarantee fund, to be placed as an inalienable reserve at the credit of the bank, or it may be both, as in the Swedish Mortgage Bank.

Loans are extremely rare in Europe, and those banks which formerly obtained them as initial aids to working, usually because they were orginated by simple executive order, are not now favoured in this way: the Land Banks of Prussia have no State advances. Nevertheless, some such aid may not be undesirable; it was thought necessary to assist the French 'Credit Foncier' in this way, and it has been asserted by M. Christophle that the Company surmounted its initial difficulties by this aid; similarly, small initial loans are occasionally given in Austria to Raiffeisen village banks, and in Switzerland to societies for providing agricultural cattle. In this Presidency the loan would serve not merely as an assistance but as a recognition of Government approval.

It is recommended that Government should allow to societies small advances not exceeding Rs. 100 for initial expenses repayable without interest in a period not exceeding three years; the Commissioner should be empowered to grant such sums. Loans may also be granted as a reserve, not exceeding 25 per cent. of the paid-up capital, but as cash would not, in such cases, be handed over, assistance in the form of a guarantee would serve the same purpose. It is not recommended that the State should ordinarily grant *large* loans as working capital; the practice would require immense sums annually, would encourage unsound working, careless lending and easy spending, would militate against the doctrine of self-help, discourage thrift, and the collection of idle hoards, foster the idea, already too prevalent, that the State is to be responsible for the prosperity and the misfortunes of the people, and place the State in the politically objectionable position of general creditor.

But there appears no objection to moderate pecuniary aid especially in the early stages of operation, the State might subscribe a certain number of founders' shares, or purchase a proportion of the debentures, with the proviso that such advances should be gradually paid off within a given period; all money should be lent at full business rates, with every item for interest, insurance, cost of supervision, loss of credit by borrowing, profit, &c., duly included The repayment should be provided as a first charge from profits after the provision for a general reserve and should take precedence of even the payments of interest upon the members' share capital; or such shares may be sold to private persons attracted by the interest offered. It should be made a condition of Government loan that ordinary shares should be under subscription to at least twice or thrice the amount of the loan, and that Government should have not merely the right of inspection of the bank's affairs, but of nominating a proportion of the directors or committee of supervision.

The cost and risk to Government would be practically *nil*. If the maximum term of such loans of Rs. 2,000 be ten years, then, if as many as 1,000 new banks are started each year, the maximum aggregate out on loan in any one year would be 200 lakhs, or 20 lakhs per annum; if repayable, as would be the general rule, by gradual amortization, 100 lakhs would meet the whole demand, since payments out would be met from repayments. As the average loan would probably not exceed Rs. 1,000 fifty lakhs would probably suffice

Fifty lakhs or even 100 lakhs on loan are a trifle; nearly the former amount was recently lent within three years under the Land Improvement Act. Moreover, as Government can borrow at 3½ per cent., and, *ex hypothesi*, lend at 6 per cent., the difference—2½ lakhs on 100 lakhs—will provide not only the cost of supervision, &c., but a contribution towards an insurance fund.

Such loans would, however, be perfectly secure, for, especially in the form of debentures, they would be first charges upon the whole capital and assets of a bank, including the whole mass of loans due to the bank. The State habitually grants loans under the Land Improvement and Agriculturists' Loans Act; those loans are secured only by the assets of a particular individual or by a *particular* investment or operation; in lending to banks the State is secured by a definite and publicly known capital, by a reserve, by the mass of investments and operations. In lending to an individual it is most difficult for the State to ascertain the true loan value of a given plot of ground; it is the borrower's interest to get as large a loan as possible on the smallest possible security. In lending to a bank, the State lends on a mass of loans on which the bank has made or will make all the detailed enquiries, and in which the bank, for its own safety and from its own local knowledge, will have avoided advances beyond the real loan value, provided always that the bank is dependent mainly on resources derived from the funds of its members and depositors, and not on the Government loans. Moreover, State advances imply State supervision, which may, in addition to that exercised by the Commissioner as a general duty, be provided by the appointment of directors or members of the committee of supervision on behalf of Government. Further, the State will certainly set aside annually in its books from the interest received on its loans a contribution to 'insurance,' from which fund it can meet any losses, while the draft bill provides for a special public insurance fund to which all banks may be compelled to contribute, and on which the State advance would be a charge.

Similar loans may be granted from time to time when necessary either to develop a useful class of operations, or in times of seasonal stress when the State would otherwise endeavour to lend to individuals for improvements or under the Agriculturists Loans Act. The difficulty of ascertaining and appraising, at such latter time, the security offered by thousands of candidates, is well-known; it would, though considerable, be, infinitely less in lending to going banks of proved status with a respectable clientele.

It should be a departmental rule that the funds from which Government proposes to grant loans should be a fixed sum, at the disposal of the Commissioner, and devoted solely and continuously to that end; all payments out should proceed from the fund, and all repayments should be universally re-credited to it; together with all interest. Moreover, the difference between the cost of borrowing at 3½ per cent., and the interest received, viz., 5 per cent. should, on due calculation, be allotted to the several heads, viz., cost of borrowing and loss of credit, cost of supervision, insurance, and profit; the sums received should be regularly and continuously ledgered under these heads, so that Government could ascertain in a few years whether its operations were resulting in loss or gain to the State, and adjust its rates accordingly; probably the 2½ per cent., difference would be found more than ample as banks develop. The accounts should be placed under the control of the Accountant General in the usual way.

A State guarantee may be given either by way of guaranteeing a minimum interest on the shares, debentures or deposits of the bank, or by guaranteeing the engagements of the bank up to any fixed sum or proportion. If interest is guaranteed it should be provided that any charge thereby incurred by the State should be an absolutely first charge upon all subsequent net profits until full recovery, nor should any dividend to shareholders or honoraria to directors be payable until such satisfaction, while in case of liquidation, the State debt should take precedence of all others. Without such precaution there would be a direct encouragement to slovenly business and immense probable losses to the State.

As a guarantee for the engagements of the bank the State would be liable only in case of liquidation and to the amount fixed in its agreement. This method of guarantee need be little dangerous; the provisions proposed for general supervision, supplemented by those for the representation of Government on the directorate of the bank, will prevent any great risk of serious loss, while it will be easy to charge a small percentage as 'insurance,' usually by requiring the bank to subscribe to a public insurance fund as a condition of the guarantee. There can be no doubt but that a guarantee up to 10 per cent.—with a fixed maximum—of the amount of the bank's capital including debentures or deposit, would attract money freely from the public; it would be regarded as a quasi-State bank, under the patronage of Government, while as a matter of fact, the 10 per cent, cover would suffice in any decently-managed bank, and under the proposed supervision, to cover any margin between the value of the loans and other assets, and the value of the liabilities.

Nevertheless, the assistance of Government, whether by guarantee or by loans, should avowedly be temporary or occasional; State nursing is in general only allowable in the infancy of institutions, and seeing that self-help is of the essence of the proposed banks, extraneous aid, however, popularly demanded, should be gradually withdrawn at the earliest possible dates. Such withdrawal should be hastened by provision in the law for the rapid and compulsory formation of a substantial reserve; this should be a first charge or a share of the profits after paying working expenses, until the reserve reaches a sufficient proportion of the liabilities, varying according to the class of institution. The matter of compulsory reserves has been dealt with in the chapter on 'Law' and in the draft bill.

Special reserves.—There are, however, two forms of reserve requiring special mention: one a reserve belonging to the bank, from which may be recouped any losses due to the failure of improvements, the other a public guarante fund formed by the State from *pro ratâ* contributions from each bank.

The first is intended to meet a well-known difficulty; a ryot wishes to dig a well but is deterred by the chance that he will meet no spring, or he digs the well and finds it a failure; or he plants an orchard and finds the soil saline; in such cases he is usually a ruined man, and both he and his neighbours are discouraged from thrift and enterprise by the loss. If he borrows from a money-lender he must, of course, pay his dues or be sold up; if he borrows from a bank a money-lender he must, of course, pay his dues or be and does not do that. But by the simple plan of insurance, a fund may be formed from which the last capital may be replaced, so that the bank can forego repayment and write off the loan. If each borrowing member pays a small percentage on his loan, varying from a very small contribution for ordinary loans to a larger one for land improvement loans, this reserve could readily be formed.

The second reserve is probably novel in practice, but has been recommended in banking proposals in the United States and is believed to be a project of President Cleveland. This guarantee fund is a State reserve which is to be formed by an obligatory contribution from every bank in operation; the funds are to be invested in Government securities in the name of the Commissioner, and accumulate at compound interest. From this reserve will be met all losses caused to Government by the failure of banks which have received a Government subvention or guarantee, as also all losses caused to creditors in the matter of deposits and debentures. Under the supervision and under the new law now proposed, it is believed that there will be comparatively few failures, and that a very moderate contribution from each bank will provide a fund which, in a few years, will be powerful enough to secure both the State and the public against all losses; this will place the banks in a very secure position and one eminently calculated to attract public money.

Borrowed funds.—The methods of borrowed capital, viz., that derived from deposits and debentures, are sufficiently dealt with in the chapter on 'Law,' in the draft bill and *passim* in this appendix.

A method of financing long-term loans in small local banks which have no wide market for their debentures requires mention. It has been found possible in Europe to establish central banks for the sole purposes of accepting the debentures of the small banks and issuing to the small banks an equivalent of Central debentures. In this way it is sought to satisfy the conditions of cheapness and proximity; the central bank, though it cannot ascertain the position of petty, individual borrowers at a distance, can, by its examiners, easily ascertain the general solvency and capacity of a local bank; it can, therefore, lend with fair safety on the paper of such bank, while its own credit, based on its large guarantee capital and reserve, and published balance sheets, enables its own debentures to be placed at the cheapest possible rates upon the money markets of the great cities. On the other hand, the small local bank though, by its insignificance, it cannot place its paper, however well secured, on the best terms, is able to deal safely and in detail with its individual borrowers. Hence the small bank when it effects its loans, however small, issues against them its own debentures, which it despatches to the central bank with the papers of the loans; the central bank on examining these papers, issues, if satisfied, its own debentures against the debentures and loan deeds of the local bank which it retains in its possession; all that the local bank has to do is to sell the central bank debentures and recoup itself for the funds advanced to its borrowers.

The method is, of course, similar to that adopted for short-term loans upon bills; the small bank discounts the bill of the borrower after acceptance by him and by his sureties (' drawers in case of need '), endorses it, and negotiates it with some other bank, and thus replaces itself in funds.

While it is impossible to start such a bank until the local banks shall first have come into being, it is not impossible that large existing banks may find it within their power to accept this rôle: small well-secured village banks with properly invested guarantee capital and reserves possibly with a Government subvention or partial guarantee, certainly with some degree of careful supervision, should be able to command good credit with the Madras Bank, as do the Popular Banks of Italy with the banks of Naples and Sicily, or with the Savings banks; the Bank would provide examiners to see to the genuineness and security of the original loans granted by the small bank, and to the steady amortization of the loans, and to the proportionate withdrawal of debentures; there would be an incessant efflux of small debentures from the Bank, an influx of repayments to the small bank, with a consequent reduction of its debts to the Bank and a corresponding withdrawal of the Bank's debentures.

If the Madras Bank cannot undertake this operation, it might, to a certain extent, be undertaken by Government until such time as a central bank could be formed for the purpose. But since the Madras Bank can, through its local branches with their solvency registers (castelletto), lend to individual borrowers, it cannot be impossible for them to deal with societies of carefully secured capital, and well-judged loans.

Privileges.—These are sufficiently discussed in the chapter on ' Law,' and, as proposed, are entered in the several chapters of the draft bill.

Administration.—This is dealt with in the chapter on ' Law; ' all that need be here pointed out is the necessity for economy. If village banks are to be a success, if the principle of co-operation is to be developed, not only must large ideas and expensive establishments be abandoned, but the administration must largely become gratuitous. One of the most striking points about the various popular banks and societies of Europe and America is the cheap or gratuitous administration.

As regards the directors and managers, the great mutual Land Banks of Prussia were originally administered almost, if not quite gratuitously, and at this day the honoraria and fees are extremely low; the duties of members are considered more than rights to fees. A cardinal principle of the Raiffeisen banks is absolute gratuitousness of administration; the Italian savings Banks are managed by committees of trustees who not merely give their services gratuitously, but run all the risks of loss and subscribe a guarantee fund without a penny of remuneration; the directors of the Milan Savings Bank, dealing in deposits and investments by millions sterling, receive absolutely nothing for their delicate and difficult services; the foundation principle of the great English Trustee Savings banks is similar; in America, the Building Societies, at least of the small local type, are usually managed, even to a large share of the account and clerical work, by unpaid directors. Wherever the true co-operative principle is found, there is also found gratuitous or nearly gratuitous management; where the joint stock principle is admitted, the stipends of directors become a leading feature in the accounts. Yet those who know the history of the institutions mentioned above, will not venture to say that they are the worse managed because they are gratuitously managed; mistakes, negligence, fraud have occurred, but on no greater scale, to say the least, probably on a much smaller scale, than in the dividend earning societies. The point has been dealt with in the chapter on ' Nidhis ' in which the desire for dividends is killing out the original co-operative idea; it is not merely a question of economy but of radical principle.

As regards establishment, common sense suggests that petty societies, struggling to extend small and cheap credit to their members, should economize to the utmost in offices and establishments. In America the local Building societies will hire the use of a room once a week, where the directors will meet, and, after discussing their subject,

enter upon the public business of the society; much of the work is done by themselves, three or four or perhaps a dozen directors taking monthly or quarterly turns; they receive the money, enter it in the accounts, receive applications for and issue loans, and so forth; only the ordinary clerical work is done by a paid clerk, who is usually a man in other business, willing to give his spare time for some modest remuneration. In this way a society with only a few thousand dollars in shares, and one or two hundred members, can be managed almost without expense. In Germany and Italy the same thing is found; the use of the village hall (chavadi or union office) is hired or obtained *gratis* for the weekly or fortnightly meeting, the work is done by the directors with the aid of the village Secretary (Karnam); the whole expenses are a few francs per annum.

The contract with Indian habits is remarkable; if a little society in this Presidency is started, whether a Nidhi (*see* the chapter on 'Nidhis') or a literary or recreation club, the first thing is to engage a clerk and the next a peon, and, even though it may largely exist on charitable donations, Rs. 15 per month are spent on services which are unnecessary and could be rendered by the members with slight attention. Establishment, an office, and directors' honoraria are the apparent objects of many societies whatever the articles may put forward as the aims of the society. The village bank should borrow a room or hire it for occasional use; the karnam or schoolmaster or some other official should be paid a modest fee for occasional services; the directors should be content as in Europe and America, with fees, if any, of the most modest description. It is recommended that village banks should be taught to place economy in the forefront of their principles.

Loans.—On this subject there is not much to be recommended; certain precautions which it is desirable should be entered in the law are mentioned in the draft bill; modes of recovery and other privileges are also entered both in the chapter on 'Law' and in the draft bill. A few words are necessary on the period, interest, and repayment of loans.

Period.—The cardinal sin of most mortgage loans in this country is not the high interest but the short term; not only are the expenses of a mortgage great, but it is preposterous that a loan for a land improvement, for the purchase of land, the building of a house, the education of a son, should be made repayable on demand or in from one to three years, or that a loan for the purchase of cattle, iron ploughs, and the like should be demandable in a year or at any moment. Capital sunk in improvements or in farm stock can only be replaced from the profits of such improvements or stock, and loans should therefore run, for the above purposes, for from three to thirty or more years; the latter period is recognised by the Land Improvement Act and the rules under it; in continental Europe the term of Land bank mortgages may run to seventy-five years, and the bulk of such mortgages are contracted for terms much above thirty years though often repaid at earlier dates. In this Presidency the average term of mortgage without possession is between two and three years and though such mortgages are doubtless renewable, yet the renewal costs at least the expenses of the fresh document and registration, and probably harder terms.

Private money-lenders cannot usually grant long term; it is only banks that can grant this facility, and only village banks on the Raiffeisen principle, find themselves able to grant loans up to ten and even twenty years. That is not quite sufficient, but Raiffeisen banks are not constituted as land mortgage but as Agricultural Credit banks; for longer terms there should be a land mortgage branch with different arrangements.

Repayment.—Almost more important than the period is the method of repayment. Since capital sunk in improvements or stock can only be replaced from annual profits, repayment ought to follow the same rule, hence repayments should be in instalments for all loans except those taken for merely current needs, such as maintenance, seed, crop expenses, &c. That is precisely what a private capitalist will not ordinarily do; he will indeed, especially under the 'kanthu' system, receive his loan in instalments seldom extending over a year in the aggregate, and certain mortgages are also so received; the latter however are exceptions, and this kanthu system is an ingenious device for making an enormous interest seem moderate. But a bank can easily receive its loans by petty instalments on the sinking fund principle, since it deals with a large number of clients, and those rural banks, such as the Raiffeisen societies, which expressly look to the welfare of their clientele, make this rule imperative for all except short term loans, and even for them provision is made by establishing a Savings bank branch in which all sums, however petty, can be deposited at interest till the due date of the loan.

Interest.—While cheap and facile credit is the *raison d'etre* of the banks, promoters need not be too anxious at first to reduce interest to its lowest point; it is more important to place the banks on a secure footing by establishing a solid reserve than to cause a rush of business which could not, perhaps, be financed, at the very beginning. With a substantial reserve capital will be attracted both on account of the material guarantee thus provided, and by reason of the moral guarantee that the bank is being conducted prudently; as deposits and capital are attracted business can be extended, credit gradually cheapened and the reserve still further augmented. Nor is it quite wise to make credit too cheap at first; borrowers must learn the use of credit and the value of foresight before capital is made too cheap. The German and Italian Banks began with fairly high rates and reduced them as business established itself and profits were found to be unnecessarily high. It is to be remembered that in dealing with a bank, all that is demanded of a borrower is the plain interest entered in his contract; his payments are rigidly credited

to him, with due counter-interest in the instalment plan, and no effort is made to entangle or defraud him, still more so is this the case when he is a member of a co-operative society which not only endeavours to assist him, but returns all surplus profits to him, and not to share-holders. When, however, the creditor is a money-lender whose private accounts are often the only evidence of the loan, its amount, and the repayments, when renewals, often promoted by the lender, are frequently on unnecessarily high terms, and where there are unexpressed commissions, deductions and dues or duties expected, the mere interest is but a part of the real burden. Hence 8 per cent. by a bank will often be less than half the burden of a money-lender's 12 per cent.

It is probable that at first there should be at least a 2 per cent margin between the cost of money to a bank, and the cost to borrowers; if a bank can borrow at 5 or 6 per cent., its loans should cost 7 or 8 per cent to borrowers. When banks are really village banks, and especially when they are co-operative, this margin should suffice for working expenses. Assuming Government interest to be $3\frac{1}{2}$ per cent., with 2 per cent. addition for insurance, cost of borrowing, profit, supervision and other expenses, $5\frac{1}{2}$ per cent., should cover the cost of a Government subvention; interest at $1\frac{1}{4}$ pies per rupee per month or $7\frac{3}{16}$ per cent., per annum should suffice for the cost of loans to the borrower; if deposits are paid at the rate of 1 pie per rupee per month or $6\frac{1}{4}$ per cent. per annum, loans should at first, cost not more than 1 $\frac{2}{3}$ or $1\frac{1}{2}$ pies per rupee per mensem, *i.e.*, $8\frac{3}{4}$ or $9\frac{3}{8}$ per cent. per annum; these rates both for deposits and loans would probably be reduced as profits and a reserve accumulate, and as deposits attain volume. Ordinarily, $1\frac{1}{2}$ per cent. margin between the cost of money to a bank and that of its loans to its borrowers, should amply suffice so soon, as the bank has established a position of security through its reserves: if the bank is large with numerous operations it has large expenses; if it is small its expenses are or should be trifling, but so is its income: hence the margin must be similar whether the bank is large or small. But the small bank is more likely than the large bank to be co-operative, in which case all surplus profits return to the members, *i.e.*, to the borrowers.

Supervision.—This has been fully dealt with in the chapter on 'law.' and in the draft bill. There is no ground for fearing that with the supervision proposed, the Government will be required to take the whole oversight of the management and administration of the societies, as supposed in a recent debate upon certain proposals to amend the Companies Act; the supervision is not more than that undertaken in the various countries of the West, including England and the United States, where, as elsewhere pointed out in detail (*see* chapter on 'law' and this appendix *passim*) a very great amount of supervision is expressly provided by law, and is continually on the increase.

The whole purport of this study has been to suggest *self-help* and management so far as is possible, but this is not necessarily procured by leaving societies to themselves; that may merely mean leaving swindlers to prey upon the ignorant, the well meaning but unskilful to blunder into bankruptcy, the growth of distrust in association, the failure to supply rural banking credit of the best or of any types. It is not the duty of Government to see that companies are so managed as to return respectable dividends, but it is their duty to see that no removable hindrance shall debar the shareholders from obtaining their legitimate profits or the members from attaining the full benefits of association. Further the objects of rural credit societies are, eminently, *not* the mere earning of dividends, but the development of the nationally requisite principles of thrift, providence, productive accumulation and distribution, the benefits of association, the development of industries and especially of agriculture. It is believed that State supervision is not only universal, but universally necessary when such are the objects in view; it is not interference in the affairs of the banks or a placing of societies in leading strings, but the fostering and safe-guarding of such conditions as shall favour growth and spontaneous development; it is far from that bureaucratic intermeddling such as is described in the *Times* of January 16th, 1895, in regard to Russia, where "banks are not allowed to manage their own affairs, but have to lend their funds only for such purposes as are approved by Government," *i.e.*, by the bureaucracy. On the contrary, this study proposes to provide what is well expressed in Italian, viz., the 'vigilanza' not the 'ingerenza governativa,' watchfulness not intermeddling.

Such supervision is universal; even in England and as regards commercial companies, supervision, or at least a legal check upon fradulent promotion and management, is provided by law, and is being sought in a considerable degree on Continental lines; still more so in the case of insurance and banking societies, and in a much greater and increasing degree where the institutions of popular thrift and providence are concerned. Where the West finds such supervision desirable and necssary the East must not shrink from a moderate participation in it.

Under this head comes the question of audit; it is impossible in a mere general study to lay down the principles of a proper audit and the methods in which it should be carried out; it may suffice to say that at first the system of Government examiners or inspectors under the commissioner is recommended, as is usual in the laws of the United States, whether for the National, State, ordinary, savings, or co-operative banks. As a body of auditors is formed by experience, especially in towns, the Government inspection may slacken, though it cannot cease; the National banks of the United States are thoroughly kept under the inspection of the Comptroller by means of his examiners, notwithstanding private audit by the banks, and it is expressly claimed by the Comptroller that it is through his examiners that departures from sound banking are discovered

and prevented. Co-operative banks will, it is hoped, form Unions, one special duty of which will be the provision of proper inspection and audit.

Resumé of Recommendations.—It is suggested, then, that while there is no real obstacle in the way of establishing banks, it is the part of the State to assist their progress by smoothing the road and by lending a helping hand; *aider à faire* rather than *laisser faire*. For the purposes of general credit it is not large or central banks that are wanted, for petty individual credit would be impossible through paid agents; the smallness of the loans required and their universality, demand local village banks, whether of the joint stock or co-operative pattern; preferably the latter. There are indeed difficulties to be got over; the social difficulties arising from the habits of the people are the most serious; commercial and financial difficulties are not serious in the case of village banks; fiscal are light and can be alleviated; legal are provided for in the draft bill. For these banks the preliminary essential is the initiative of men of devotion, knowledge and perseverance, who will both preach the idea and put it into actual practice; village administrators will not be found wanting as shown by the success of Nidhis in villages or small towns, and by the habitual ease with which village administration is carried on; capital will probably flow in, at first slowly afterwards more rapidly, if the banks are thoroughly local so as to encourage local deposits, and if they are provided from the outside with a guarantee of reserve capital followed by the accumulation of a reserve; in this matter the assistance of Government with loans for initial and early working expenses and a reserve, or with a guarantee, will be advantageous; with this capital loans of long and short term with special facilities for easy repayment may be granted at a rate of interest not necessarily very low but thoroughly equitable, and capable of gradual reduction as the bank gains experience and stability. A certain amount of external supervision not amounting to interference or control, but tutelary and preventive, should be provided, at first by Government, followed by a partial withdrawal from such supervision as the banks provide, through Unions or otherwise, the means of self-inspection. The administration must be as nearly gratuitous as possible in order not merely to enhance the pecuniary profits of the bank and to cheapen loans, but to ensure the development of the co-operative idea of friendly, mutual help. To these village banks and especially to those of the co-operative type, privileges may be usefully granted, especially in the method of the safety and recovery of debts, and—in the co-operative banks—in the exemption of certain amounts from Court process and in the provision for provident nominations to shares or deposits. For all details the provisions of the draft bill may be consulted.

Village banks, with cheap or gratuitous administration, co-operative in principle financed by deposits and debentures secured upon the capital, reserve, and loans, granting long term mortgage credit repayable by amortization, as well as current short term loans on personal credit, with external supervision as an equivalent for certain privileges, are the chief desiderata of the Presidency. To these may be added village granaries for lending and receiving in kind, as well as small village joint stock banks, savings banks, agricultural associations, and co-operative societies other than banks, while the larger classes of banks whether taluk or district may find useful spheres of operation. All co-operative banks should be linked in groups to a central union, while, for financial purposes, all banks should be affiliated to one or more central banks, such as the Madras Bank, which would issue readily marketable debentures in place of the local banks' debentures, and would re-discount their endorsed bills.

The Village Bank.

The bank might be either co-operative or joint stock; its objects should be distinctly stated,—*e.g.*, that of providing for thrift and credit,—and its area of operation prescribed. In either form it would be "limited by shares," either in the usual acceptance of the word or with the wider meaning proposed in the draft bill; it would be open of course to make the bank unlimited as in Europe or limited by guarantee as by the Companies Act.

The capital should consist of a moderate number of small shares, perhaps from 100 to 1,000 of Rs. 10 each, with a proviso that no member should hold more than one-twentieth of the whole number. The instalments by which the shares should be paid up should be prescribed by the articles, care being taken to suit the conditions of agricultural incomes. Ordinary shares should bear interest; in joint stock banks this would take the form of dividends; in co-operative banks only moderate fixed interest, as determined by the articles, should be allowed.

Shares should be subscribed in full for a joint stock bank for a co-operative bank this is not necessary, as the bank consists of members not of shares. A certain proportion should at once be paid up; probably one-fourth to one-half in the case of joint stock banks. If shares are not largely subscribed and partly paid up in a co-operative bank, it will be necessary to resort to founders' shares in order to obtain capital at the start, since under the limited liability system, there will, in the absence of a considerable subscribed capital be no sufficient guarantee for the deposits. The proceeds of the founders' shares may be used as working or, preferably, as guarantee capital. Provision should therefore be made for founders' or guarantee shares of, say Rs. 100 each bearing a fixed interest of about 6 per cent. and not withdrawable but transferable. If the founders' shares are only used as a guarantee they need not be paid up in full; only a portion must be paid in

cash and the other portion in bonds which may be cashed at need; or instead of shares the ' founders ' may guarantee a cash credit with a bank upon which the bank may draw and make repayments as convenient; in both these cases interest would only be due by the bank on the cash payments or drawings.

If it is found possible to obtain a Government subvention or guarantee, this may be used as a reserve, or as first working capital and the share proceeds and deposits for subsequent operations. In any case, the beginnings must and will be slow.

A reserve should be compulsory, and formed from the beginning by a percentage, say, 10 or 20 per cent. taken from the profits before any dividend is announced; in the case of co-operative banks, allowing only fixed interest on the shares a further allotment should be made to the reserve, to which also should be paid all entrance fees, and any commission specially intended for the reserve. There might be special reserves, especially for the insurance of borrowers against failures of their improvements; these would be filled by special contributions or by the allocation of surplus profits.

Members.—A member should only be admitted upon the decision of an entrance committee (directors or others) with appeal to a general meeting in case of refusal. If elected he should sign a declaration that he will abide by the rules of the society; his name, address and status should be carefully entered in a register in order that the guarantors of the society, whether Government or other, may know the quality of the components of the society. Election to the society is necessary since its safety depends on the character of its members. Similarly, a member should be liable to expulsion in case of bankruptcy, failure in his obligations toward the society, or punishment for a serious offence. In a co-operative bank a member has the power of withdrawal at any time on due notice, but such withdrawals will not operate to exclude him from liability as laid down in the Companies Act. No member should be allowed to have a preponderating influence in the society, for which purpose the number of shares to be held by one man should be limited, whether in a joint stock or co-operative bank. In case of co-operative societies it should be provided by law that subscriptions or deposits up to a certain moderate amount should be exempt from Government or Court process, except for sums due to the society itself; also that members should have the power of nominating successors to such shares or deposits up to a certain amount; and that in case of intestate death, the directors should have power to pay such amount to persons adjudged by them to be heirs, failing Court injunction to the contrary. (See draft bill which is based on English provisions in co-operative and benefit societies and Savings banks.) These latter privileges are not proposed for ordinary joint stock banks which are simply trading concerns, looking to the profits of shareholders which are derived from third parties, namely, the borrowers, whereas in a co-operative society it is the members who are themselves borrowers, actual or potential.

Holders of founders' shares or guarantors should, *ipso facto*, be members.

General Meeting.—Every shareholder or member should have the right of vote; in a joint stock society the individual (one man one vote) or the stock vote (one share one vote) system may be adopted; in a co-operative society either the individual vote or a limited number of votes should be the rule, in order to keep the society an association of men and not of money, and to keep each member interested in the society. For this latter purpose a small fine may, as in Europe, be imposed on members who, without good excuse omit to attend the general meeting. Proper rules should be made for quorum, subjects and powers of the meeting, and for the calling of extraordinary meetings.

Provision should also be made for the presence or representation of depositors and other creditors, who should be allowed to state their views but without the power of vote. They should be entitled to bring subjects before a general meeting under the usual rules for subjects.

Directors.—There should be a moderate staff of representative men, fully acquainted with the affairs of the village, and with the members of the society. They must have a considerable stake in its well-being, and should be possessed of a minimum number of inalienable shares during their term of office. It is a question whether they should be allowed to borrow from the society; the evils of large borrowing by directors as exemplified in the U.S.A. National banks and in the Nidhis of this country, have been great in the European societies it is common either to forbid such borrowing altogether, or to allow it up to a certain moderate amount only, and only under strict precautions such as the consent of a general meeting or of the committee of supervision; the latter plan seems most desirable, since the benefits of credit are or should be the most valuable of those attaching to a society. They are usually forbidden also to be sureties for other persons' debts except under the same precautions. There can however be no objection to credit obtained by the pledge of movables.

In the Italian Popular banks and in all Raiffeisen societies, in many if not most of the small U.S.A. Building societies, in the Trustees Savings Banks of England and Italy, and in many others, absolute gratuitousness of service is laid down as a rule of the society. This has been derided as preposterous when proposed for India probably because the critics have been misled by the incessant harping upon the one string of profits. Whatever rules may be laid down for joint stock banks, where, it is true, profits to shareholders and honoraria to directors are the mainspring of action whatever the ostensible object of the society, the race after profits is out of place in a co-operative society, which should

either rule out honoraria altogether or allow only expenses out of pocket; this, in a village bank, will be practically *nil*, and herein lies one of the great advantages of petty banks; in the great Landschaften, although they started with similar ideas, they have been forced to allow moderate honoraria and allowances because of the distances to be travelled, and the compulsory and difficult nature of the duties and enquiries to be undertaken.

The directors should be sufficiently numerous to undertake the executive duties personally: the U.S.A. Building societies' plan is to divide the Board into perhaps three portions, each of whom undertakes the executive duties by short turns, such as the receiving and investigation of applications for loans, the receipt of subscriptions, and so forth. But in a small village bank, this may not be necessary.

Rules should be made for the appointment, powers, and duties of directors, and for their removal. The general meeting should have power, on due cause shown, to remove a director, and such removal should *ipso facto* result from misconduct, &c. such as would give cause for the expulsion of a member, as also from the parting with or pledging his shares below the required minimum.

Committee of supervision.—Experience shows that shareholders usually take little part in the affairs of a society, and it is invariable therefore on the continent to provide by law a popular committee whose special duties are to act as controllers, inspectors and auditors. The committee is appointed by the general meeting to watch over the interests of the shareholders; they hold frequent meetings, examine the work done by the directors and can, for obvious misconduct, suspend any or all of the directors, but are then bound to summon an extraordinary general meeting. It is their special duty to watch over the issue of loans and the security taken, to verify the accounts, cash and securities in hand, to examine the balance sheet before it is submitted by the directors to the general meeting and to forward it with their remarks to such meeting. No one is allowed to be a member of such committee if related (in Italy in the fourth degree) to any of the directors. In other words, while the directors are the immediate executive, the committee of supervision is the parliamentary council of control, the general meeting representing the electoral body. Such at least is the German view of the committee which is dealt with in detail in the Code of Commerce and in the special co-operative law; in Italy the committee (sindaci) are rather internal auditors and examiners than actual controllers.

Other committees.—In the Italian Popular banks it is usual to appoint other committees when the bank develops in business, such as discount committees, whose special duty is to keep up the castelletto or register of solvency, and to examine with this and other aids, all aplications for the discount of bills; another committee is that of arbitrators (proviviri, prud' hommes) or men of position and trust, to whom disputes between the society and its members may be referred and who, in the absence of the general meeting, hear appeals from the directors' orders refusing admission, decreeing expulsion, rejecting applications for loans, &c. In a village bank these latter committees are not needed.

Accounts.—It is impossible to prescribe, except in a regular manual, proper forms of accounts; for a village bank with only a few score of members' loans and accounts, the greatest simplicity is possible, such as a day-book, personal ledger for subscriptions, deposits and loan accounts, receipt or pass books for each member, a minute book, a register of securities, and the like. It is expressly stated in many of the Madras Nidhis that the accounts are on a faulty system and extremely complicated, so that, as one auditor of a very large fund complained, the auditor was never sure, after the most careful examination, whether he had arrived at a true balance sheet or not. They should be kept in such a way that the amounts payable by each member on each meeting day should be known beforehand and placed in an extracted list for the information of the directors on duty for the day; this is an important aid to punctuality.

The balance sheet required some care in preparation; it is simple enough in form, but the items require careful investigation; there is a special temptation in joint stock companies to keep up the reputation of the society by declaring profits at all hazards, and never below that of the previous year: hence the inclusion, as may be seen without trouble, of past due debts in balance sheets and of interest and payments due to the society but not yet recovered. This is wholly wrong; many over-due debts are valueless, some are only good for a part of their nominal value, yet all appear in the balance sheet at their full face value; cases are known to the writer where past due loans secured on property so badly appraised as to be below the value of the loan, appear as full value assets; in some cases absolutely nothing, whether principal or interest, has been recovered for years. In the draft bill a section has been extracted from the New York banking law on this point, and in the model articles of the German banks there is a provision as follows: —"All uncertain debts must appear in the balance sheet only at their probable value, and all non-recoverable debts must be excluded." This is common sense but is apt to be entirely neglected; the result may easily be a wholly fictitious dividend, where there should have been a deficit [*cf.* section 14, Building Societies Act, 1894 (England)].

It is well to have a balance sheet drawn up at frequent intervals by the directors; these should be posted up in the office on each business day.

Audit is a question which demands attention; it is not the difficulty of the audit but the ensuring that it shall be genuine. Glaring instances are common of auditors who only sign their names to whatever is put before them on the ground that they have

confidence in the directors, as though their express duty were not that of ascertaining whether the directors are worthy of confidence and are placing true accounts before the society; in some places valuable securities have been abstracted, but never missed by the auditors, while such matters as money paid out by the secretary or others without any authorization, are not attended to. It is for this reason that, at first, Government examiners are necessary; men of the position of Local Fund auditors will suffice for the audit of village banks. As co-operative societies develop they will organize themselves into unions with union inspectors for the auditing of accounts and examination of affairs.

Office business.—For village banks it will always be possible to conduct this with the minimum of expense. Most villages have a place where the villagers are accustomed to transact their business either with the Government officials (chávadi, Pilliarkovil, Reddi's verandah, &c.), or in many places, there is now a Union office; any of these, preferably a public and communal place of resort, such as the chávadi, will suit. The safe for the temporary custody of property and cash will ordinarily be with the Reddi who should always be an official of the bank, it being understood that money and valuables are not to be retained there; ordinarily cash will be paid out in loans as soon as it is received; any surplus and all valuables on pledge, securities, &c., should be lodged in the nearest Government treasury. This is advisable since village banks cannot well collect and retain valuables which, however, can be sent by the usual methods to the taluk treasury.

The methods of business will be of the simplest and have been sufficiently indicated under 'directors,' &c.

Examination of affairs.—This is a different matter from the mere audit of accounts, and is intended to show whether the transactions on which the accounts are based, are genuine and safe; the balance sheet may give the true abstract of the accounts, the accounts may show correctly the in and out-payments; the further question is whether the assets shown in the accounts are of their nominal value. This is an important matter; many a fund which should have prospered has fallen solely because of the dishonesty or incapacity of its appraisers or directors; a house worth Rs. 1,000 has been valued at Rs. 2,000 and a loan granted for Rs. 1,500; saline land valued as though fertile; flimsy jewels as though solid; past due debts of no actual worth taken as assets to full value. So also it is found that directors and their friends obtain the greater share of the loans; and too often the security given is the less, as the position of the borrower in the society or in influence with the directors, is the greater.

While the honesty and care of the directors must be the chief safeguard of the society and while the very smallness and local character of the bank must tend to prevent such frauds, it is obvious that an outside supervision is advisable. This is provided in the Companies Act by the provision for inspectors to be appointed by Government, but this will not suffice as the formalities are too considerable. On the European continent it is partly provided for by the committee of supervision who, though members of the society, have nothing to do with its management, and are not allowed to be related to the directors. In England a provision for the examination of the books of the society is entered in the law for co-operative societies: this was ineffective and by the Acts of 1891 (Savings banks), 1893 (Co-operative societies), 1894 (Building societies) larger provision with fewer formalities is made for obtaining such inspections. Similarly in the United States it is claimed by the Comptroller of National Banks that by his examiners he is able to detect and, still better, to prevent fraud or mismanagement, and to promote sound business; honest directors welcome the aid of experts, while to the dishonest they are a terror and a check.

What is necessary in Europe and America, is not less necessary in India. It is for this purpose that the auditors of the commissioner should have power not merely to audit the accounts, but to examine and verify the affairs of the bank, to examine and test the securities, and to bring to the notice of the society as well as of the commissioner any irregularities they may find; *e.g.*, had there been such examiners, a recent case in which pewels of high value were taken from the safe of an urban Nidhi and feloniously misappropriated for about a year by an official of the society who had irregularly obtained possession of the three keys of the safe, would have been impossible.

Funds.—Based upon the share and guarantee capital, actual or subscribed, the working capital should consist of funds drawn from the savings of the public whether members or others. In the absence of unlimited liability by which every member pledges the whole of his property for the obligations of the bank, the subscribed capital must take the place of a guarantee only, and the deposits or debenture loans must be the sources from which it grants credit. In Europe the Popular and Village banks usually possess borrowed capital on an average in the ratio of three or four to one of own capital; the older banks probably have such capital in a greater ratio. If fair interest be offered it is probable that profits will be sufficiently attracted and for Village banks this will probably be more convenient than debentures, unless long-term mortgage loans are granted freely. Deposits at call should be accepted only in moderate quantity or with the proviso that they should be repayable only as funds become available or—better—upon notice varying in ratio with the sum withdrawn. Deposits on fixed term for three months and upwards should be the mainstay of Village bank finance; at 6 per cent. interest these should flow in readily enough; the Post Office Savings banks show largely increased deposits even at about 3 per cent.

If the law permits deposit receipts to be transferred from hand to hand, they will be the more readily sought after, since a depositor in need of money before due date could simply sell his note; this is the principle of the Italian "buoni di tesoro dell" agricoltura." If it does not so permit, an addition might be made to the law to that effect.

It will be well to open a savings branch for each society in which any one member or other, can deposit petty savings at any moment, irrespective of his subscriptions or dues upon loans. It frequently happens that a man finds himself with a little cash in advance or in excess of his dues; if he is unable to deposit this he is apt to spend it uselessly, especially if a very small sum such as two or four annas. If, however, there is a savings branch, he can deposit his surplus and place it out of danger. Such savings branch should be separate from the credit bank, so that outside savings may not be endangered by bad credit business, but would of course be managed in the same office, and probably by mostly the same directors.

Debentures.—The continental Land bank usually finances itself by the issue of mortgage debentures issued against other loans; each loan in fact is in the German system financed by a debenture or debentures to the value of the loan, and as the mass of loans is repaid the debentures are paid off. The Popular banks do not generally use these debentures, but the Loan societies of England and Ireland under the Acts of 1843 and 1840 respectively are empowered to issue debentures against their loans of all sorts, a very useful provision. The debenture has several advantages over deposit receipts; (1) they may be for extremely small sums and may be divided up into fractions; for instance they may be issued for Rs. 32 and divided into four coupures (sections) of Rs. 8 each, on which interest at $6\frac{1}{4}$ per cent. would be exactly half a rupee per annum; deposit receipts are usually for larger sums: (2) they are readily transferable while the deposit receipt is not: (3) they are first mortgages secured by the whole property and assets—including the mass of loans, &c—of the bank, and would take rank in liquidation before deposit receipts; (4) they would rise above or fall below par according to the status of the bank. A currency of small debenture coupures would be a welcome addition to the circulating medium of the country. Within the village or its immediate neighbourhood the debentures of the local bank would soon be accepted as good securities, but to obtain a wider market and therefore to reduce their rate of interest they would require the intervention of a larger bank; this has been dealt with above, *s.v.*, 'borrowed capital.'

Debentures in continental Europe are usually withdrawn by lot; though issued upon the grant of a particular loan they are not secured by that loan only but by the whole mass of loans and other assets; hence they are paid off not on the repayment of the particular loan for which they were issued but by lot; if they are current below par this gives an additional value to them and tends to raise them to par, since they are paid off at their face value. It is unlawful in this country to make them repayable with lottery prizes, but it is not illegal or otherwise objectionable to make them repayable *each* with a fixed premium; this is merely the capitalization of deferred interest, with the advantage to the creditor of being paid in a lump as a bonus, as soon as the debenture is drawn for repayment; the method greatly assists the popularity of the debenture.

Loans from Government have also been dealt with above; the first working capital or a reserve, and a fund for the initial expenses might be provided by Government, the former at full market interest including a charge for insurance, costs, profit, &c., the latter at favourable rates. Beyond this the grant of Government funds is not generally recommended.

Loans from other banks are advisable; in Italy one great function of the Savings banks is the grant of loans to small credit societies; in Germany the separate savings branches of the Raiffeisen societies are beginning to supply all the funds needed by the original credit branch. The Bank of Madras could probably utilize some of its funds in financing small banks when assured of their solvency and good management; the mass of village banks' loans would be the security to the Madras bank for its advances; it might in fact purchase the debentures of the village banks and thus assume the position of mortgagee.

The rate of interest must at first be at least 5 per cent. in order to develop the habit of depositing and investing, and of trusting the banks; probably in rural banks 6 or $6\frac{1}{4}$ per cent. is the rate which will prove attractive. The Nidhis give 5 (rarely), 6, $6\frac{1}{4}$ up to 9 per cent., but it is to be remembered that they are not organized for deposits and have no good maerial security; they are not banks of deposit but subscription societies; $6\frac{1}{4}$ per cent. interest on money borrowed and $7\ \frac{13}{16}$ or $8\ \frac{1}{3}$ per cent. on money lent seem probable rates.

The bank should reserve to itself a right to close deposit accounts or to repay debentures at any time upon short notice; from the date of expiry of the notice no interest should be allowed save that in the case of debentures recalled the interest should run to the end of the current half-year.

Loans.—These may be of many classes; dead loans, discount of bills, cash credits they may be regular loans, or small lot loans for poor persons on ordinary or favourable interest; they may be secured upon mortgage, pledge, bill of sale, or personal security; they may be of short or long term and payable either in lump or by instalments; they may be large or small, and payable in cash or in kind.

Probably for some years the ordinary dead loan will be the most common; but it is suggested that there are advantageous modifications. The Schulze-Delitzsch plan of granting a loan is generally upon the bill or note of the member backed by one or more sureties; it is for three months only but renewable twice or thrice. The Italian plan is similar, though the loan is often granted at once for perhaps one or two years, but is only issued upon three months' bills which must be renewed every quarter; this enables a bank to withdraw the loan by refusing renewal if the borrower has misused the loan. A further advantage of granting the loan by a negotiable bill is that the bank can rediscount it if in want of funds; this, however, would be useless unless the bank is affiliated to or in correspondence with the Bank of Madras, or some exchange bank.

The cash credit has been adopted from the Scotch banks into the German and Italian Popular Banks; it is very suitable for land improvements; for the borrower, because he only draws what he requires from time to time; he repays to credit of his account as into a Savings bank, any sums which he may receive; he is charged with interest only upon the amount at his debit; he obtains a larger loan of longer term because the money is not a dead advance from the bank's capital; it is advantageous to the banks since they are continually receiving in-payments; they can watch the progress and objects of expenditure and can gauge the results by the existence or absence of in-payments, and they can close the account at any time upon notice. Cash credits granted up to a certain maximum solely for agricultural or industrial developments, for an indefinite term but made up every half-year with power of closure at any time upon a month's notice, would be a valuable addition to the methods of Indian banking.

The security tendered either for loans or for cash credits may be real, chattel or personal. The mortgage loan in Madras is much resorted to even for current needs, as especially in Tinnevelly, and may be made very cheap; fiscal charges may be reduced to one-half; the bank, provided with simple printed forms could relieve the borrower of all expenses for writing and attesting the documents; in the case of loans by a bank, it might be possible to simplify registration formalities and expenses, whether in reducing the number of witnesses at the registration office, or by requiring only inscription, *i.e.*, the making of a memorandum of the nature and contents of the document,—instead of verbal transcription; registration charges might in fact be halved; loans below Rs. 100 need not be registered and could be made safe against subsequent registered loans by the mortgagor giving possession to the bank and by an attornment clause becoming the temporary tenant of the bank. Village banks would find mortgages an absolute security; they would know the exact value of the land, they could watch the mortgagor's subsequent dealings with it either by improvements or in allowing deterioration; they would certainly become aware of any attempt to raise a fresh loan upon it, it could not be sold by revenue process without their knowledge; if sold for their own dues they would be secure of repayment since, being on the spot, they could prevent collusive sales and could, if necessary, buy it in with a view to subsequent re-sale; while a mass of good mortgages forms by far the best security for debentures. The small mortgage, relieved of part of its fiscal and other charges, would be a very desirable security for village banks. Chattel credit is twofold, viz., either by actual pledge or pawn, or by bill of sale or corresponding charge. The pledge should be an important form of security in this country of jewel hoards; but except in or near towns so that the valuables may be securely deposited either in a treasury or elsewhere, there is a serious difficulty for the bank in finding safe storage of valuables It is recommended that rules be made by Government permitting the storage of sealed boxes, for the contents of which, Government will not be responsible, within treasury strong rooms or in police stations.

The more important function of an Agriculturists' Bank, however, is the making advances upon property which remains with the borrower. The advance upon crops, or on general status, is the habitual method of this country, and only requires to be re-organized by law. The bill of sale is not provided for in Indian law; so also is the case in continental Europe where the absence of such provision is much felt; its place is taken by securing certain 'privileges' by the special laws made on proposed for agricultural credit. A bill of sale, *i.e.*, the pledge without delivery of a man's movables, including growing crops, cattle and stock, &c., is a most useful form of credit and has the advantage in England of bringing with it the right of summary distraint. Village banks should freely adopt this form of credit especially when the law shall have formulated the bill of sale and arranged for its registration as though a mortgage. (*See* chapter on 'Law,)

The true credit however is personal credit, viz., that based on what is technically known as 'character,' *i.e.*, general status, solvency, reputation, &c. It is that which is so largely used in this presidency, as in India generally; one man, whether professional or ryot, lends to another not upon any particular pledge but upon his mere promise or bond; an immense number of village transactions are purely oral, or evidenced by mere entries in accounts, or by an unstamped and invalid cadjan chit. The form usually found in Europe is the bond or note with one or more sureties, and one reason for the habitual use of the three months' note or bill is the necessity for a short term when the credit is based on a solvency which may change in that time. In this presidency some of the Nidhis—one a very large and flourishing one in a small town; see Nidhi B in the chapter on 'Nidhis' *ad finem*—grant credit almost entirely in this form, although its transactions extend for some miles beyond the society's head-quarters. Schulze-Delitzsch expressly

advocates personal credit with sureties on the ground that it promotes mutual confidence and assistance and this promotes that social union which is so desirable. Whether this is so or not, it is certain that the form should be largely adopted by co-operative credit societies, while it is attended with but slight expenses.

The promissory note is of course possible for small sums and short terms when the status of the member is well known and his stake in the society considerable.

The necessity for granting credit of sufficiently long term has been dealt with *passim;* loans for land improvement, house building, and the development of a farm require credit of from one to perhaps fifty years. In such cases the instalment system of repayment is an equal necessity for the sake of the bank and of the debtor; for the bank that it may gradually re-compose its working capital from the repayments of the several loans, for debtor to enable him to repay his debts by slow amortization, from the annual proceeds of his improvement, and to remove from him the possibility of spending his surplus instead of saving it.

The instalments, however, should be at considerable intervals, suited to the income of the agriculturist; a weekly or monthly repayment is usually impossible to a ryot who has but one season of incomings; for long term agricultural loans instalments during three or four months of each year are suitable.

There should be a maximum for loans; it may be well that the general meetings should fix a limit for the amount to be granted on particular classes of loans to individual borrowers, and for each separate loan. For instance, it might be necessary to say that only a certain proportion of the capital should be issued on mortgages; that no member should be granted credit, whatever the security offered, for more than so many hundred rupees; that no individual loan shall exceed so much. It is obviously advisable that the loan power of the society should not be absorbed by a few persons, and that a particular loan on particular security should not, should it fail, endanger the society's credit.

It is a question whether a distinct preference should not be given by the rules to small loans; in the Italian Popular banks it is usually laid down as a rule of management that small loans shall have the preference; the banks are avowedly started for small folk and the object is to reserve or keep as many *persons* as possible out of the hands of the usurer, not to obtain large dividends with the greatest possible ease. Hence small loans, notwithstanding their difficulties, get the preference, and it is to be noted that they bear the same interest as the larger loans. So also in the Raiffeisen societies, the loans are, on an average, for such petty sums that even in India where money is four or five times as dear, they would be ordinary.

In this presidency the Nidhis usually provide for a number of 'small lot' loans, issued in sums of Rs. 5 or 10, usually for three months; it is, however, from these loans that the Nidhis make large profits, the rates of interest sometimes amounting to 25 per cent. per annum and even higher, on such loans. This, if the Nidhi were really co-operative, would be unheard of as a rate, and reads rather like the usurious exploitation of the poor. If a village bank has merely the men of its village for its clientele it can and should lend small sums on the same terms as large; its *raison d'être* is small loans, and these should have the preference; if properly lent for proper purposes to members only, they are perfectly safe, and need not therefore be charged at high rates. When the records of the Small Cause and Village Court suits are perused, it is seen at once that the loans of this presidency below Rs. 10 are numbered by lakhs annually; of the debts which come to Court about 104,000 (45 per cent.) are below Rs. 20; hence if a village bank is to do its work it must be organized for and expressly deal as a primary object not only with loans below Rs. 50, but below Rs. 20 and even Rs. 10; it will generally be better to lend five persons Rs. 20 each than two persons Rs. 50.

There is in fact in Italy a special class of loans called "prestiti sull'onore"; these are very small loans, seldom exceeding £2, drawn from a special fund usually accumulated from profits and lent to poor but honest persons upon favourable interest, as to a poor workman to buy a set of tools. It is found that there is very slight loss indeed upon these loans, which are in considerable use and of much benefit. It is true that the method savours of charity; it is not however a charity which enervates but one which invigorates; a man is given thereby a hope and a chance, and a charity which turns a hopeless, resourceless pauper into a working man is not an economic error; 'lame dogs' can be cured as well as kicked. But such loans cannot justly be given until the bank has provided a *special* fund for the purpose, and one great benefit of the co-operative system is the devotion of profits to the accumulation of resources for this and other purposes.

It is suggested that special attention be paid to the establishment of Positos or Monti Frumentarii, that is, Village lending granaries. The European names indicate the purpose of these granaries; they were accumulations (Monti) or stores (Positos) in which the surplus grain of the villages was deposited; the exact origin of the stores is not known, but as they were all permanent endowments belonging to the villages, they probably originated in *pro ratâ* contributions from the various villagers; the fund once formed maintained itself by the continual influx of repaid loans, waste and losses being made good by the interest charged loans being granted by the struck measure and repaid by heaped measure. Similar village granaries in this Presidency would have the double value of providing food in famine years, and maintenance and seed in ordinary years; if exhausted in famine times, they could be replenished by a Government grant-in-aid from the savings which would be effected by the general existence of such granaries.

In a village of 100 families of five members each, cultivating 500 acres of food and other crops, there might be 30 families requiring loans for seed and maintenance during, say, 6 months of the year; for this purpose, at lb. $1\frac{1}{4}$ of grain per head per diem, exactly 15 tons of grain would be needed, representing a capital of about Rs. 750, if the grain be taken as ragi or cholum. Such a contribution, whether in grain or in money, could easily be made by the other seventy families in the course of one or two good years; by lending out the grain at the rate of 11 pounds returned for 10 lent, the 33,000 pounds of grain would be maintained intact, and a surplus left for division, either in kind or in cash, among the contributors. This rate would be only two-fifths of the current money-lenders' rates, to which latter must often be added a commutation of the repayments into cash with the lent grain calculated above, and the repaid grain below the market rate. The granary would preferably be the property of a co-operative society, composed of the chief villagers and of the borrowers, and would involve the smallest possible cost and difficulty in management, while it would at once get rid of one of the most crying evils of village usury. It would probably soon develop a branch for the supply of cattle and implements, and for the sale of the produce of its members, and thus become a co-operative society of the highest usefulness.

In its status as a mere granary it would however largely fulfil the idea of those members of the Famine Commission who advocated public granaries for the relief of the people in famine years; had that proposal included one for the lending of the grain in ordinary years, and the management of the granaries by a village society and not by Government, it can hardly be doubted that the idea would have taken hold of the public imagination. As a rule, not more than one-tenth of the population of a district are likely to come under relief, and these granaries would provide the mere food for that proportion for six months of the famine period, that is for just that period during which the pinch of distress is severe. When supplemented by Government grants and private charity, there would be almost complete provision for mere food supply, while granaries of this pattern would not involve that State interference to which the other members of the commission rightly objected (Report Vol. I, paragraphs 160—164). The stocks of grain would, as already stated, be replenished from the next harvests by means of Government grants-in-aid obtained from the immense savings which would accrue to the State in the matter of relief. If it were found possible to feed the people by the direct efforts of Government in a famine period, these granaries would excellently provide the stores of grain for seed and maintenance needed during the cultivation season immediately following the actual famine, or they would act as a reserve to supplement any temporary failure of supplies.

As already suggested in the more general portion of this chapter, interest need not be too low at first; it is better to start with rates that will be remunerative, than with such as will result in failure; it is easy to reduce but not to enhance; better to have a surplus than a deficit provided that the surplus is wisely provided for by the rules or by the good sense of the bank. Interest on borrowed funds at about 6 per cent. and at about 8 per cent. on loans, will probably be found equitable and sufficient; 9 or $9\frac{3}{8}$ per cent. ($1\frac{1}{2}$ pies per rupee per month) should be the maximum on any dues. In many Nidhis the rate is $6\frac{1}{4}$ per cent. for all 'regular' loans, and in some, especially the largest and most flourishing of all, there is only one rate for all loans, viz., $6\frac{1}{4}$ per cent. but this is in the presidency town. Even in such Nidhis the borrowed funds receive interest at $6\frac{1}{4}$ per cent., profits being derived from their sources. It must be remembered that in a bank there will be no fraudulent accounts, no demands outside of the interest; hence 9 per cent. to a bank is usually much better than 9 per cent. nominal, to a money-lender.

Profits.—Whether the bank be joint stock or co-operative, it is essential to devote a large share of the profits to building up a reserve. It should be obligatory by the articles, as is proposed in the draft bill, to credit a certain percentage to the reserve until it shall bear a considerable proportion to the share capital or to the mass of liabilities. The remainder would in a joint stock bank be divided as usual, but in a co-operative bank, only the interest fixed by the articles should be credited to the members' shares; this might be at the rate of $4\frac{1}{6}$ or $4\frac{11}{16}$ per cent, per annum (two-thirds or three-fourths of a pie per rupee per month). There should also be permissive provision in the articles for the devotion of any surplus profits to such work of general utility, whether for the benefit of the society as a corporation, or of the village, or of any public body, as might be decided by the general meeting, *e.g.*, the building of an office, the digging of a well, a donation to a hospital, and so forth. Such utilization of the funds would be a valuable education in public spirit; the mere provision in the articles would be suggestive.

Other suggestions for surplus profits are the formation of a fund for loans upon trust (prestiti sull' onore); of a provident fund for the benefit of the employés; of a fund for insurance against special losses, as on loans for land improvement where the improvement fails, or for the purchase of cattle when the cattle die; of a fund for improving the interest upon small savings. The first and third have been adverted to above; the second is necessary only if the bank develops in size; the fourth is very important as highly provocative of thrift amongst the very poor or young. The increased interest on small savings may be given either by an increase in the next annual interest, or by a general *pro ratâ* bonus addition at the end of the year, or by premia to those who have amassed a certain sum or made the most frequent additions to their amount during the year, or who have otherwise shows special prudence and thrift, as in the productive employment of savings.

SPECIMEN ARTICLES OF A CO-OPERATIVE VILLAGE BANK.

1. This society shall be called the Village Bank of . Its registered office shall be situated within the village.

2. *Objects and scope.*—The objects of the bank shall be the encouragement of thrift, the collection of funds, and the lending of such funds to members. Such funds may be either in cash or in grain. The bank may also purchase goods necessary for the maintenance and industries of its members, and may also collect the produce of members and place it upon the market for the benefit of such members.

The bank shall not engage in any speculative operations, or in trade other than as implied in the foregoing paragraph, nor shall it deal with persons other than members except in the matter of the receipt of deposits and other funds, and except as regards the purchase and sale of goods and produce for the benefit of the members as above mentioned, or except in so far as these articles expressly provide.

No loan shall be granted to any person for other than a useful or productive purpose; the clearance of prior debts, the purchase, improvement and cultivation of land, the purchase of stock, manure, seed, the execution of a contract or work, the building repair or furnishing of a house, the education of children, advances upon crops for maintenance, shall be the primary objects of loans, and none shall be granted for the purchase or manufacture of jewels or articles of luxury, for marriage expenses, litigation or for other unproductive outlay.

3. *Members.*—Every person whether male or female above the age of 16 years residing in the village shall be eligible as member under the rules hereinafter laid down.

Any person desirous of becoming a member shall apply in writing to the directors who shall enter his name upon an application register if such application be supported and attested by two members of the society. Such application shall be disposed of within one month by the directors. No reason shall be assigned for the rejection of such application, but appeal may be made to the Committee of supervision and arbitration, and to the general meeting.

Every person accepted as a member must sign or affix his mark to a register of members, such signature being attested by two members, one of whom shall be an office-bearer. The register shall contain the articles of the bank, the name, father's name, address, and occupation of each member and shall also state the lands held by him within or outside the village.

Every person shall, on signing the above register, be deemed to have become a member of the society, and shall be bound by all its rules, and be liable for its obligations as hereinafter provided.

Every member shall subscribe for at least one share, but no member shall subscribe for more than 25 shares. He shall, upon admission pay an entrance fee of 4 annas, which shall be credited to the reserve.

In case of liquidation each member shall, if necessary, be liable to contribute an amount not exceeding 25 per cent. of the par value of his shares, in addition to any amount still remaining unpaid on his shares. Shares shall only be withdrawable or transferable according to the provisions of these articles.

Any person desirous of subscribing a founder's share or shares or of becoming a guarantee for the bank, shall present his application to the directors, who shall dispose of his application as though an application for ordinary membership, and shall require his signature to the register of members, and he shall thereupon be bound by its rules, and be responsible for its obligations and debts to the extent of his share or shares or of his guarantee.

Any member shall have the right to withdraw at will upon giving three months' notice of his intention to withdraw. Such withdrawing member shall be responsible, as before withdrawal, for the debts and obligations of the bank incurred before the date of actual withdrawal, until one clear year from the expiry of the business year in which he withdraws. Withdrawal within six months prior to the liquidation of the society shall be considered null and void.

A withdrawing member shall be entitled to receive the value of his subscriptions as a member, but shall not be entitled to any share in the reserve, or to any dividend for the year in which he shall withdraw. The bank shall pay the value of the shares to the withdrawing member as soon as possible and at latest within three months after the expiry of the business year in which he withdraws, but shall not be bound to do so at any earlier date. On withdrawal due to causes beyond the member's control, such as tranfer of appointment, a member may, if the directors see fit, receive his subscriptions in full together with half the dividend due for the year in which he withdraws.

A member shall be liable to expulsion from the society by vote of a general meeting if he is in arrears beyond three months with his subscription or with his other dues, and has been three times warned of his arrears; if he has compelled the bank to resort to judicial or executive process against him; if he has wilfully disobeyed the rules of the bank or been guilty of any fraud towards it, or if he becomes bankrupt, or if he has been convicted of an offence of a grave nature under the Penal Code, or if he has been guilty of conduct, as a member, inconsistent with his duty towards the society, or if he be a habitual drunkard or spendthrift or living on public charity.

Any member who may have been expelled from the bank or who shall have permitted his membership to lapse by default shall, as regards his liability for the obligations of the bank, be considered as a withdrawing member.

Decease shall be considered as withdrawal, but the heirs of the deceased member shall not be liable as contributories in case of liquidation, but only for the payment of any monies or funds due to the bank.

A member shall not be entitled as of right to transfer his membership by transfer of his share or shares, but may do so with the consent of the directors; in case of refusal an appeal shall lie to the Committee of supervision or arbitration. An application for transfer shall be treated as an application for admission to membership, and the transferee shall be treated as such applicant, unless he is already a member of the society. The transferor shall be liable as though a withdrawing member.

In cases of decease the directors shall not be bound to admit the successor to the deceased as a member but shall, in case of refusal to admit or in case of refusal to become a member, pay the value of the deceased's subscriptions as in cases of withdrawal. In disposing of claims to the shares of deceased members, the directors shall within three months pay such amounts as are due after satisfying the claims of the bank, to the person or persons found on enquiry by them to be the proper heirs, or to persons nominated by the deceased under the provisions of the law, or to persons who produce probate of a will or letters of administration, or a certificate of heirship.

4. *General meeting.*—An ordinary general meeting shall be held not less often than once in six months; the directors and Committee of supervision shall have power to summon an extraordinary meeting at any time, and they shall be bound to do so within fifteen days of notice in writing given by one-tenth of the members and containing the subjects to be laid before such meeting. Notice of meetings shall be given by tom-tom in the village and by written notice affixed at the village chavadi or other place of public resort, at least one week before the proposed meeting. Ordinary meetings shall be held on the 1st January and 1st July of each year.

Every member of the bank shall have the right of attending every general meeting, and it shall be his duty to do so. Any member who shall fail to attend two consecutive meetings without good excuse shall be liable to a fine not exceeding 2 annas. Proxies shall only be allowed in case of absence from the village or in the case of females.

Every member of six months' standing, of either sex, and above the age of 18 shall have one vote and no more (or one vote for every five shares, not exceeding five votes in all). But no member shall be entitled to vote, though he shall be bound to attend, if he is in arrears for more than fifteen days with any dues to the bank.

The meeting shall be presided over by a chairman elected at each meeting for the purpose.

No subject shall be voted upon at any meeting, of which the above notice has not been given, but it shall be permissible to discuss any subject without taking a resolution thereon.

At the annual general meeting the directors shall lay the annual balance sheet and report before the meeting and take a resolution thereon: such report shall be accompanied by the auditor's report and the remarks of the Committee of supervision, and the result of any examination made by the Government inspectors.

The general meeting shall elect the directors, the members of the Committee of supervision, and the auditor or auditors. It shall have power to remove, by special resolution, any of the directors or committee for good cause shown.

The general meeting shall also decide appeals against refusals by the directors to admit members or to transfer shares: it shall decide the maximum amount to be granted on loan to any one person and in any one loan; it shall decide applications by directors or members of the committee of supervision for loans other than on pledge of movables; it shall determine the amount to be borrowed for the purposes of the bank, and shall decide the rate of interest to be charged on each class of loan, and shall have power generally to alter the Articles of Association.

One-fourth of the members shall be a quorum; all matters shall be decided by simple majority, save where the law requires any other majority.

Depositors and debenture-holders shall have the right of attending meetings and of taking part in the discussions even if not members, but unless members, shall have no power of vote. But they shal have power jointly to appoint a co-auditor who shall have the powers of an ordinary auditor in the examination of the accounts.

5. *Directors.*—The Board of Directors shall consist of nine members, who shall be elected by the general meeting for three years and shall be re-eligible; one-third of the directors shall vacate office each year, those retiring in the first two years being designated by lot, and those subsequently according to date of election. Any vacancy may be temporarily filled by the Board and the Committee of supervision until the next general meeting.

The board shall elect from amongst their number a chairman who shall preside at these meetings which shall be held on the and of every month for the transaction of public business, and as often as may be necessary for other purposes.

Every director shall hold at least five shares which shall be inalienable during office and must not be borrowed upon. All services shall be gratuitous, nor shall any part of

the profits be divided amongst the directors but they shall be entitled to expenses out of pocket, if any, incurred in the society's business.

No director may borrow from the society's funds by way of personal credit, but, with the approval of the Board and of the Committee of supervision conjointly, may obtain loans upon the pledge of immovable or movable property.

No person may hold or continue to hold the office of director who shall have been insolvent, or compounded with his creditors, or been convicted of any serious offence under the Penal Code; in any such event the Director shall *ipso facto* be deemed to have vacated office. A director is also liable to exclusion if he fails, without good cause, to attend a meeting of the directors for two consecutive months. The general meeting shall have power, by special resolution, to remove any director from office.

All matters for disposal at a meeting of the directors shall be decided by majority, the chairman or presiding member having a casting vote. No director shall have any vote in any matter affecting his personal interest or responsibility.

The directors shall make rules for the conduct of business at their meetings, and shall enter all rules, and minutes of all resolutions and proceedings in a bound register to be kept for the purpose. They may also make bye-laws consistent with these articles.

The acts of the directors shall be binding upon the bank unless and until rescinded by a general meeting, and every individual director shall be responsible for the acts and resolutions of the board unless he shall at the directors' meeting have formally expressed and recorded his dissent, or unless, if absent from the meeting, he shall express his dissent not later than the close of the next subsequent meeting.

The duties of the Board of Directors shall be (*a*) to receive and decide upon all applications for admission as members; (*b*) to receive and decide upon all applications to make or withdraw deposits, all applications for loans, all repayments of loans, and all matters connected with receipts into and disbursements by the bank; (*c*) to settle and alter the rates of interest to be charged and allowed, and any commissions to be charged; (*d*) to inspect and audit the accounts, to examine annually the valuations of property, to check the securities in deposit or held by the bank; (*e*) to draw up the annual balance sheet, and to propose the distribution of the profits; (*f*) to appoint and pay the clerical staff; (*g*) to perform all acts connected with the administration not especially assigned by these articles to the general meeting or some other organ of the administration. All deposits and in-payments shall be received and payments made after the close of each meeting of the directors and on such other fixed days as shall from time to time be settled by the general meeting. For such receipts and payments at least two directors shall be present, and shall personally receive and enter or cause to be entered in the several registers the deposits, subscriptions, or dues, and shall give receipts for the same, and shall likewise make all payments duly authorized beforehand by the directors at their meeting. At the close of each such sitting the directors shall draw up a statement showing the position of each loan outstanding, the amount at credit of each depositor and a total showing gross assets and liabilities. This statement shall be in a form capable of continuous additions throughout the year, the results of each sitting being added to those of the previous sitting. In such statement the names of debtors and creditors (depositors &c.) shall not be mentioned, but only the number as entered in the pass-book of such debtor or creditor. The statement shall be accessible to all members in the office during all working hours. They shall be assisted in their duties by the clerical staff of the bank, but shall be personally responsible for the correctness of the entries. The directors shall take up these duties by monthly turns of two, one director retiring from duty in each month.

The work of the directors shall not be delegated to third parties, save only the clerical work of the office, nor shall decisions be made by the directors upon circulated papers, but all business shall be done in actual meeting, for which no proxies shall be allowed.

In determining the rates of interest to be charged and allowed the directors shall be limited to the maxima and minima settled by the general meeting from time to time.

It shall be the duty of the directors, who may claim the assistance of the Committee of supervision, frequently to examine the security of the bank's investments, to enquire whether the loans granted have been expended as agreed upon, and to ascertain whether there has been any deterioration in the security accepted by the bank or in the status of the borrower or his sureties. In case of any breach of the agreement, of any deterioration in the security held by the bank or in the status of the borrower or his sureties, the directors shall take any necessary steps to secure the bank. The directors shall be entitled to call in forthwith any loan which may have been expended in breach of contract or in which the security may have become so materially deteriorated that the safety of the loan is endangered.

The proceedings of each meeting of the board shall be read out and confirmed at the next subsequent meeting.

Bye-laws.—The directors shall draw up bye-laws not inconsistent with these articles, for the conduct of office business and of directors' meetings, for continuous audit and inspection of the accounts, for the due receipt and disposal of the funds, for the receipt and disposal of applications for loans, for the due valuation and scrutiny of securities whether real, chattel or personal offered for loans, for the preparation of the annual balance sheet for action under section 85 (14, 15 and 16) of the Draft bill, and for such other matters as may be necessary. All bye-laws shall be appended to the articles, and

shall be open to the inspection of all members, any of whom may present his written objection to the same, which, if the objection be not admitted and acted upon, shall be laid before the next general meeting.

6. *Committee of supervision.*—Three of the members of the society shall be elected by the general meeting to form a Committee of supervision; none shall be eligible who holds less than three shares. They shall hold office for three years and shall be re-eligible, one member vacating each other. Their services shall be entirely gratuitous and the provisions relating to directors regarding profits, eligibility for appointment and for holding office and for borrowing from the society shall apply to the members of this committee.

Their special duties shall be to maintain a general supervision over the accounts and affairs of the bank, to ensure that the directors observe the rules and limits of business as laid down in the Memorandum and Articles of Association, to examine and report on the balance sheet, to vote with the directors in case of loans demanded by members of the board or committee, or in case of misconduct by any such member, and by themselves to hear any complaints or appeals made by members or applicants for membership or creditors of the bank against the action of the directors. An appeal shall lie from their decision to the general meeting. Not less than two members must be present at any sitting in which such complaint is heard and decided.

The committee shall be entirely distinct from the Board of Directors, and no director of any director's father, son, or brother shall be a member of the committee.

In case of the discovery of any misconduct by any of the directors or others, the committee shall report the matter to the Board of Directors, and, if necessary, shall summon a general meeting, and may, in serious cases, affecting the management and safety of the bank or of the public, report direct to the commissioner or local board if any, for the necessary action. The committee may conjointly with the Board of Directors suspend any director and appoint a substitute, but shall in that case call a special general meeting within one month for the consideration of their action and the disposal of the complaint.

The committee may at any time invite an examination of the affairs and accounts of the bank by the commissioner or his inspectors, upon a written application assigning sufficient cause for such examination.

7. *Disputes.*—Disputes between the bank and its members shall be disposed of by the Committee of supervision with an appeal to the general meeting, the decision of which shall be final except as provided in section 66 of the Draft bill. Members refusing to abide by the decision of the general meeting or of the commissioner shall be liable to expulsion from the bank.

The above paragraph relates only to disputes between the bank and its members as such with reference to the interpretation of the rules or bye-laws, and the conduct of business but not to disputes relating to contracts between the bank and members as creditor and debtor.

8. *Clerical staff.*—The general meeting shall from time to time determine the number and pay of the staff to be employed, but the appointments and removals shall be made by the directors. The general meeting shall be bound to observe the strictest economy in the decisions on this matter.

Every person appointed on the staff must be or become a member, and may be required to give security if necessary. Their eligibility to hold or to continue to hold office, and to borrow from the bank shall be the same as laid down in the case of directors.

9. *Audit.*—In addition to the internal continuous audit to be maintained by the directors and Committee of supervision, there shall be once in every year an independent audit by an auditor annually appointed for the purpose by the general meeting. No director or other office-bearer shall be eligible as such auditor during his term of office, or any person interested otherwise than as member. Such auditor may be remunerated on a scale to be determined by the general meeting, and shall be re-eligible. If no such auditor is appointed, or if no person shall be available for the duty, the directors shall, within one month of the close of the business year, move the commissioner to appoint an auditor, and the commissioner shall thereupon make the necessary appointment. The depositors, debenture-holders and other creditors may appoint by joint agreement a co-auditor who shall be entitled to carry out the audit of the bank's accounts and affairs in conjunction with the regular auditor, and shall have similar powers and duties. The auditors shall have access to all the books and accounts of the bank, of which a list shall be put before them, and shall examine all the items of receipt and expenditure, funds and effects of the bank and individual accounts, and shall verify the same with all accounts and vouchers relating thereto. They shall also personally inspect the mortgage deeds, securities and valuables belonging to or in custody of the bank as securities for their loans or other investments, and shall certify that they have so done, and if found correct that they are in agreement with the accounts, and shall report any disagreement or deficiency. They shall have power also to call for all explanations or information from the directors or others, and shall record a note as to the nature of such information or explanations, and whether such information or explanations were satisfactory. They shall expressly and explicitly report upon all items which disclose defects, frauds, or grounds for suspicion, and their report shall be laid before the general meeting with the explanaton of the directors and the opinion of the Committee of supervision.

10. *Funds.*—These shall proceed from the subscriptions of members with entrance fees, from founders' shares, from Government subventions, from deposits, from debentures, from

other borrowings if necessary, from the interest and commissions derived from loans, etc.

11. *Shares.*—The share capital shall be divided into 1,000 shares, each of the value of Rs. 8; no member shall possess more than 25 shares. The value of the share or shares may be paid up in lump, or by instalments at the discretion of the directors; such instalments must aggregate at least Rs. 2 per share per annum.

Interest shall be paid at 1 pie per rupee per mensem on the amount paid up; fractions of a rupee shall not bear interest. No interest shall be paid over to the member until he shall have completed the subscription of his share or shares, till which time all interest shall be credited to such share or shares.

The bank shall be entitled to repay upon one month's notice, the value of any share or shares held by a member in excess of one share; should the member desire it and the affairs of the bank permit it, the directors may permit such shares to be retained at half rates of interest.

Any member may withdraw from the bank any shares in excess of one share upon giving notice; such withdrawals of excess shares shall be considered and treated as though withdrawals from membership under article 3 *supra.*

A member may also transfer any shares in excess of one share, and the provisions of article 3 *supra* in the matter of transfers shall apply to transfers under this article.

12. *Founders' shares.*—These shall be limited to 100 in number of the value of Rs. 80 each; any number within the maximum may be subscribed whether by one or more persons, but no single share shall be subscribed for by more than one person. They shall be payable in lump or by instalments of one-eighth each per month or per quarter at the option of the subscriber as entered by him in writing at the time of first subscription. Interest shall be payable thereon at 1 pie per rupee per month on the amount paid up and shall be paid over to the subscriber. The bank may repay at any time without notice the amount of any share in which the subscriber has failed to observe the conditions of his agreement. The directors may intimate on one month's notice that further instalments on shares not fully paid up will not be required till further notice, and any sums paid in after receipt of such notice shall bear no interest until the directors intimate their readiness to receive further instalments.

The bank may also repay any or all of the shares held by any subscriber upon three months' notice, and no share shall bear interest after the expiry of the three months, unless repayment is delayed by the bank itself.

A subscriber may withdraw the whole or any of his shares upon giving notice as follows: one share to five shares on three months' notice; any large number at six months' notice; shares shall not be withdrawable at smaller intervals than three months between each set of withdrawals.

Transfers of founders' shares may be made at the option of the subscriber, but all such transfers shall be intimated with full particulars regarding the transfer to the bank.

13. *Government subventions.*—The directors shall apply to the commissioner for a temporary loan of Rs. 100 for first working expenses, and for a regular loan of Rs. 2,000 as first working capital. The terms of such loans shall be arranged by the directors with the commissioner, but the interest payable by the bank to Government for the regular loan shall not exceed $6\frac{1}{4}$ per cent per annum.

14. *Deposits.*—These may be received from any person whether a member or not. Deposits shall be either ordinary or savings deposits.

Ordinary deposits may be either at call or on fixed term. Ordinary deposits at call may be paid in by sums not below Re. 1 on any office day. They shall bear interest at seven-eighths of 1 pie per rupee per month ($5\frac{5}{32}$ per cent per annum), but no interest shall be allowed should the deposit not reach or should it fall below Rs. 10; nor shall broken periods of any month count towards interest.

Deposits at call may be received up to any amount should the directors see fit to accept them, but the directors shall have power to refuse deposits without assigning any reason; they shall be repayable at any time by the directors on fifteen days' notice, after the expiry of which date they shall bear no interest; they may be withdrawn in sums of not less than 1 rupee by the depositor on any office day, at not less intervals than one week, but the bank shall have the right to delay repayment of sums above Rs. 20 as follows: sums of Rs. 20 to Rs. 50 after one month; from Rs. 50 to Rs. 100 after two months; larger sums after three months. These deposits shall be paid in and withdrawn only by means of a deposit pass-book which shall show all receipts and withdrawals and shall be signed by the directors on duty in case of receipt of deposits; every withdrawal shall be signed by the depositor and initialled by the directors on duty. No deposit shall be received by any person other than by two directors, and at the bank's office within office hours; any person receiving or withdrawing deposits otherwise than as provided by this clause shall be expelled from membership, nor will the bank be responsible for any sums which do not appear in the pass-book.

Deposits on fixed term may be received at any time if approved by the directors. The minimum term for such deposits shall be three months and the maximum three years, and they shall bear interest at from 5 to 6 per cent per annum according to duration. These deposits shall be received in sums of Rs. 10 or multiples of Rs. 10 and not otherwise. Every such depositor shall receive a temporary receipt signed by the directors on duty pending disposal of his application to make the deposit; on final acceptance of the deposit he shall be granted a receipt taken from a stub with counterfoil, duly signed by the chairman and by the directors on duty if the sum exceeds Rs. 100, or by the directors

on duty if below that sum. Deposit receipts will be paid only to the actual depositor or to his proxy and at due date. The depositor may apply for the return of his deposit at any time; the bank shall not be bound to comply with his request, but should it do so it will pay no interest for the six months prior to demand; it shall also be entitled to the delay mentioned in the preceding paragraph (repayment of ordinary deposits,) during which period no interest will be allowed. The bank may grant a loan upon such deposit receipt.

15. *Savings deposits.*—Savings deposits shall be of two classes, ordinary and petty.

Ordinary savings will be received at any hour that the office is open. No savings deposit must exceed Rs. 10 paid on any one day, or Rs. 200 during one year, or Rs. 1,000 in all, exclusive of interest; any excess above Rs. 1,000 will be transferred to ordinary deposits. All payments in and withdrawals shall be governed by the rules relating to ordinary deposits at call, save that in-payments and withdrawals may be made in sums of not less than 2 annas.

Interest on savings deposits shall be granted at 1 pie per rupee per month ($6\frac{1}{4}$ per cent. per annum) upon the amount in deposit, but no interest shall be granted until the deposit reaches 1 rupee, nor upon any fraction of a rupee, nor for the month in which money is deposited or withdrawn upon the amount so deposited or withdrawn. Interest will be added annually to the balance of each amount, for which purpose each depositor must present his pass-book at the bank within the month of ; failing such presentation, the interest will be entered on the next occasion on which the pass-book is presented. The amount of the interest can be drawn by the depositors, but only as an ordinary withdrawal after the entry has been made in the pass-book.

Petty savings be received on any working day in sums of a quarter anna to Rupees 10 and may accumulate up to the sum of Rs. 20 when they will be transferred to ordinary savings. They shall bear interest at 1 pie per rupee per month ($6\frac{1}{4}$ per cent per annum)) The bank will further grant from surplus profits, if any, such sums as bonuses either to all such accounts or to accounts selected for continuity of saving, as may be decided by the general meeting.

.The rules of the Post Office Savings banks of July 1894 as regards "persons who may deposit money (Rule 5)," "limitations as to opening accounts" (Rules 6, 8), "powers to withdraw money and limitations as to withdrawal" (Rules 14, 15), "how to open an account" (Rules 18, 19, 20), "modes of depositing money" (Rule 24), "mode of withdrawing money" (Rules 26, 27, 28), "closing an account" (Rules 33, 34), dead accounts (Rules 37, 38, 39, 40) shall, *mutatis mutandis* and subject to the requirements of the sections of the law regarding Provident nominations and small intestacies, be applicable to all savings deposit accounts in this bank.

In the case of loss, deterioration or spoiling of pass-books, the bank will grant a fresh one on payment of one anna.

* 16. *Debentures.*—The bank will issue land mortgage debentures in representation of its mortgage loans under the sections of the law relating to such debentures. Each debenture shall be for Rs. 25 and shall be issued in the forms and under the rules framed by Government for such debentures. The rate of interest and period of debentures shall be determined by the directors from time to time. They shall be repaid at par upon half-yearly drawings by lot, or upon six months' notice to any holder, or they may be repurchased at the current rate in the market.

The amount to which debentures may be issued shall not at any time exceed nine-tenths of the amount of mortgage loans outstanding and not otherwise pledged or charged by the bank, and a statement of the aggregate amount of outstanding debentures and of the outstanding loans upon which they are secured, shall form an item in the monthly and annual balance sheet.

17. *Other borrowings.*—The directors are for the purposes of the bank empowered to borrow money or grain to an amount not exceeding such sum and at such rates as may be fixed at a general meeting.

18. *Loans.*—The bank will advance money, to members only, upon first mortgage of lands or houses, upon pledge of movables, upon bills of sale, upon personal security, or upon a combination of such securities. No loan shall be granted for more than twice the nominal value of the shares held by the applicant. All applications must be made in writing to the directors who may reject the application without assigning reasons. An appeal shall lie to the Committee of supervision, but no further.

Every loan contract shall contain a provision entitling the bank forthwith to call in the full unpaid amount of the loan with all dues or to demand additional security (1) where the member has been expelled from the society, (2) where the security tendered to and held by the bank, or the status of the borrower and of his sureties, shall have so deteriorated as to endanger the safety of the loan, (3) where the borrower has wilfully and materially departed from his agreement as to the objects and character of the expenditure of the loan amount.

All property forming the security for any loan shall be managed and treated by the holder, whether the borrower or the bank, with all due care and skill.

Upon the grant of a loan the borrower shall receive a pass-book in which shall be entered the principal amount due, the rate of interest, the amount, date, etc., of every instalment due whether of principal or interest, and such other particulars as may be necessary for the information of the borrower; every payment made to him or by him on

* This section is only entered in case the bank should be authorized to issue debentures, which at first will probably be seldom.

account of such loan shall be entered in such pass-book and signed, attested or initialled as provided in article 14 *supra*, in the case of deposits. The pass-book shall be balanced on each occasion, so that the borrower may at all times be aware of the amount due by him. All entries shall be made in figures and in writings.

19. *Mortgage loans.*—No loan shall be given on the mortgage of property beyond the limits of the village.

An applicant for such loan must submit a written application specifying the property tendered as security, its approximate value, his title-deeds, if any, his claim to be regarded as the owner, a statement of all co-sharers, and a certificate given by himself that the property is unencumbered. The directors shall verify the statements of the application, and, if necessary, shall proceed to a valuation of the property. The enquiry shall be made in the presence of the head of the village and of the karnam who shall, if members, attest the valuation certificate and the minutes of the enquiry. A notice shall, if necessary, be affixed at the bank office and at the village chavadi inviting any objectors or prior encumbrancers to put forward their claims.

A loan may be granted to the amount of 75 per cent of the estimated value if the property be land, and of 60 per cent if the property be a house. No loan shall be given upon a thatched house. All persons whom the directors consider to be interested in the property shall execute or attest the bond whether members or not.

A mortgage shall be considered as a first mortgage if the loan is used to pay off all prior encumbrances, and the directors will adopt any necessary means for the redemption of such encumbrances with the proceeds of the loan from the bank.

Mortgages shall be granted for terms not above thirty years, and shall be repayable in lump or by instalments, as may be arranged, provided that all loans of more than three years' term shall be repaid by instalments together with the interest on the sinking fund principle.

The interest on mortgage loans shall not exceed the rate of one and one-third pies per rupee per month, or $8\frac{1}{3}$ per cent per annum, and may be less at the discretion of the directors.

20. *Pledge of movables.*—The bank may lend upon jewels, Government promissory notes or securities guaranteed by Government, and such other classes of valuables as may from time to time be decided. All property submitted as security shall be valued by appraisers, and loans may be granted thereon not exceeding 75 per cent of the estimated value, or 90 per cent. of the face value if Government promissory notes or of the market value of securities guaranteed by Government. The directors shall make rules for the safe custody of property deposited as security for loans.

Interest shall not exceed $8\frac{1}{3}$ per cent per annum and may be less at the discretion of the directors.

No loan shall exceed the term of one year, but may be renewed at discretion.

21. *Bills of sale.*—The bank will lend upon the pledge without delivery of property in the possession of a member, such as the cattle, stock, and produce, including standing crops of his farm, any machines or plant used in his trade or manufacture, or instruments or tools used by him in his profession; but not upon jewels, furniture or ther movables of the house or family.

The applicant shall, in such case, give in writing an exact inventory with description and valuation of the proposed securities, and, should the directors accept his application, shall execute a bond granting the bank a charge upon the said property, and shall bind himself not to remove, sell, convert or otherwise apply to his own use or to any use other than that of his business and of the repayment of the loan, any of the articles so pledged without the consent of the bank. The directors may require the applicant to give one or more sureties for the due fulfilment of the contract.

Loans may be granted for the purchase of farm stock, implements of trade, etc., upon the security of the cattle, etc., so purchased, though not actually in the borrower's possession at the time of execution of the debt bond and payment of the money, provided that the borrower shall provide one or more sureties, members of the bank, and accepted by the directors. Such stock, etc., so purchased shall be subject to the provisions of paragraph 2 of this article. Should the borrower so desire, the directors may supply stock or goods required by a member for the purposes of his trade, industry, or profession, and such stock or goods shall similarly be subject to the provisions of paragraph 2 of this article up to the amount spent upon them.

Interest shall not exceed $9\frac{3}{8}$ per cent. per annum or $1\frac{1}{2}$ pies per rupee per month, and may be less a tthe discretion of the directors. If granted at $9\frac{3}{8}$ per cent, the difference between $9\frac{3}{8}$ per cent and $8\frac{1}{3}$ per cent or part thereof may be refunded to the borrower without interest, on the full repayment of the loan, such difference being treated as insurance till such repayment.

No loan on such security shall exceed the term of three years, but may be renewed.

22. *Loans upon personal security.*—These may be either with or without sureties.

Loans may be granted on the mere promissory note of the borrower up to nine-tenths of the amount paid up on his shares or of his deposits, whether ordinary or savings. No such loan shall exceed one year in duration.

A loan of any amount within the rules may be granted upon a bond executed by a member with one, two or more sureties, each of whom must be a member of the bank.

Such loans shall not exceed a period of six months, but may be prolonged by successive similar periods to two years.

Loans on the sole note of the borrower, otherwise than in paragraph 2 of this section, may be granted to an amount not exceeding Rs. 20 for each loan, should the directors approve of the application and of the status of the candidate. No member shall be admitted to more than one such loan in any one year, and each such loan must have been fully and punctually repaid before application is made for another such loan. Not more than Rs. 500 shall be out at any one time upon such loans. Payments may be made by instalments, and repayments may be received by instalments of not less than one-fourth of the loan at intervals not exceeding one month. The repayment of the loan shall be begun not later than six months from the date of the grant of the loan or of the first instalment thereof.

Interest on all the above loans shall not exceed $9\frac{3}{8}$ per cent. per annum or $1\frac{1}{2}$ pies per rupee per month and may be less at the discretion of the directors.

23. *Cash credits.*—Loans may be granted as cash credits instead of as dead loans; they may be secured upon mortgage, bill of sale, pledge of movables or personal security or upon a combination of such securities. Such loans shall specially be granted for carrying out a specific enterprise such as the improvement of an estate or the execution of a contract. Cash credits may be opened for any term not exceeding one year, but may be prolonged indefinitely by successive periods. The borrower shall be entitled to draw such sums as he may need to the extent of his credit, and may pay in such sums as he may choose at any time; interest at 1 pie per day per Rs. 25 or fraction of Rs. 25 shall be charged upon the balance at the borrower's debit; the borrower's account shall be made up half-yearly and communicated to him.

The bank shall have the right to close a credit at any time on one month's notice if it is dissatisfied with the borrower's operations; no amount shall be paid out after the date of issue of such notice. The borrower shall be required to pay in the amount at his debit on the expiry of the month's notice.

24. *Trust loans.*—Upon the formation of a reserve for the purpose, loans may be granted from such reserve to poor persons in sums not exceeding Rs. 10 for each loan. Such persons need not be members of the bank, but must, if non-members, be recommended by two members, who will be held responsible for any default by the borrower, who must execute a promissory note payable on demand. The loan may be repayable in any convenient way, but at latest within the period of one year. Any misuse of the loan shall entail an immediate demand for the repayment of the loan in full. Interest shall be payable at half a pie per rupee per month on the amount outstanding in each month. These loans shall only be granted to poor persons, residents of the village, of good character and hardworking, and for purposes of production, business, or economy. Not more than three successive loans shall be granted to a non-member, who, if of good character, should be induced to join as a member.

25. *Grain loans.*—The directors shall, when necessary, purchase at the harvest season such stock of grain as will probably be required for loans to members during the cultivation season, subject to a maximum to be fixed by the general meeting, and shall take the necessary precautions for its safe custody till required.

From such stock loans may be granted to members for *bona fide* maintenance and the expenses of cultivation, in quantities not less in value than 1 rupee or multiples of 1 rupee on each occasion and not exceeding Rs. 24 in the whole to any one member.

No promissory note or bond shall ordinarily be required from members for such loans, which shall be evidenced by entries in the bank's accounts, to which end a separate page in a grain credit register shall be opened for each borrower, whose signature or mark shall be taken on each occasion of borrowing.

Grain loans shall be repayable in money or in kind, as determined by the borrower at the beginning of the loan.

If repayable in money, the borrower shall, on the occasion of each advance, be debited in the ledger with the value of such advance calculated at the then current village rate, to which shall be added interest at $1\frac{1}{2}$ pies per rupee per month from the date of each advance to the date of repayment.

If repayable in kind, the quantity borrowed shall be repaid together with an addition of one additional measure for every ten measures borrowed, or if the amount borrowed has been issued by struck measure, it shall be repaid by a similar number of heaped measures. The grain repaid must be of the same kind and quality as that borrowed and thoroughly clean and well dried; failing the observance of this condition the loan shall be repayable in cash calculated as in the preceding paragraph.

All advances shall be repaid within one month after harvest.

26. *Penalties.*—All borrowers shall pay their dues, whether interest or principal, punctually. The bank will be entitled to proceed against any borrower upon failure in his contract, but it will be open to the directors to grant time for good cause shown upon application. A borrower failing in three successive months or on three occasions during the pendency of a loan to pay his dues shall further be liable to expulsion from the society.

The directors may proceed to recover the bank's dues by all legal process, whether by distraint or suit in Court, or by sale of any pledged property.

In lieu of proceeding to the cancelment of the contract and the recovery of the principal, the bank shall be entitled to receive and to recover by process in Court or by distraint the contract interest together with any fines that may be imposed by the directors not exceeding in any case half the ordinary interest due by the contract. Fines shall not

however be made an ordinary source of income; directors shall enforce punctuality by notice, by advice, and finally by resort to Court or to executive process, and shall not connive at unpunctuality as a source of income through fines.

27. All members, creditors, and debtors of the bank shall be entitled to a quarterly statement of their accounts with the bank, showing their balance at credit or debit. Such statement shall be made up for the quarters ending with the last day of March, June September and December, and shall be issued within one month of such dates. The statement shall be made out in the form of a general list of balances extracted from the ledger, showing consecutively the balance at credit or debit of each person, all names, addresses, and other means of identification being omitted, save only the number of the member in the members' register, or of the pass-book held by such member, creditor, or debtor in virtue of his dealings with the bank. Such list shall be signed by the chairman and by at least one other director, and by at least one member of the committee of supervision, and shall be open for inspection by any member, creditor or debtor at any time during office hours..

The directors shall also be bound to grant to any member, creditor or debtor all reasonable facilities during office hours for the inspection by such person of his individual account in the ledger, or of payments made by and to him as entered in any other books of the bank, provided that such inspection shall in no case extend to any account of or items relating to any other person.

Any member, creditor, or debtor, shall have the right of calling the attention of the directors, or of the committee of supervision, or of the auditor to any item relating either to himself or to a third person, or to the bank as a corporation, and to require an examination of such item by the directors, committee or auditor; failing satisfaction he shall be at liberty to bring the matter before the general meeting or before the commissioner.

Every pass-book, whether a deposit or loan pass-book, shall be submitted to the bank in the month of . . . , for verification with the ledger and for a duly attested entry in figures and in writing, of the sum at credit or debit of the holder of the pass-book. The pass-book shall be returned to the holder within 15 days of its receipt by the bank. Any error or supposed error noticed by the holder should within 15 days of such return, be brought to the notice of the directors or of the committee of supervision.

28. *Profits.*—In the calculation of profits, only dues actually received shall be entered as receipts; credit shall not be taken for accrued interest not yet paid. Past due loans or instalments shall be entered at their probable value only, and not at their nominal value; all dues on which neither principal nor interest has been received for one year, and for which no decree has been obtained shall be altogether omitted. But in calculating liabilities the bank shall debit itself with the full value of all debts owed, and of interest and other dues accrued but unpaid up to the date of closing the accounts, notwithstanding that such interest shall not be actually payable till some date subsequent to that of closing the accounts.

From the gross profits thus arrived at shall be deducted (1) the cost of administration, including all taxes and Government dues other than dues upon subventions or subscriptions to shares or debentures, (2) the fixed interest due to members on their ordinary shares; the remainder shall be net profits.

From the net profits shall be set aside (1) at least 25 per cent. for the general reserve, until such reserve shall equal one-half of the share capital or one-tenth of the deposits, debenture issues and other borrowed funds whichever may be the greater; (2) such proportions or amounts as may be allotted from time to time by the general meeting (*a*) for any special reserves or insurance funds, (*b*) for trust loans, (*c*) for the encouragement of small savings, (*d*) for any operation or matter tending to the development of the bank, (*e*) any fund intended as a provident fund for the paid staff of the bank, (*f*) for any work of public utility. Any surplus shall be paid to the reserve.

29. *Reserve.*—The bank shall provide from the beginning a sufficient reserve to meet probable losses; such reserve shall accumulate till it reaches one-half of the nominal capital or one-tenth of the total liabilities whichever shall be greater. The funds of the reserve shall be invested solely in Government promissory notes, or in a Government Savings bank, or in shares or debentures of State Railways or Railways guaranteed by the State; the interest on such investments shall be credited to the reserve.

All entrance fees, fines, commissions and all accidental profits shall be credited to the reserve.

This fund shall not be divisible among the members, nor shall any retiring member have any claim upon it, but it sall belong to the bank solely in its corporate capacity: in case of voluntary liquidation any surplus shall be invested in the name of the commissioner as a nucleus for a future bank in the same village, or shall be utilized in some work of public utility, such as an endowment to a hospital, the election of school-house in the village, the digging of a public well, and the like.

Business losses shall be met from the reserve unless they are debitable to a special reserve; such losses must, as quickly as possible, be made good, the reserve being kept constantly full.

A due share of the profits shall be expended in forming a special reserve from which the founders' shares or guarantors' bonds may be paid off. A further share shall be devoted to the formation of an insurance fund to which shall be debited all losses to the bank on account of the failure of operations, death of stock and other similar losses in matters for

which loans have been granted; for the more rapid accumulation of this fund a commission of 1 per cent. upon the capital amount of each loan hall be deducted at the time of granting the loan; such commission to be credited to the borrower without interest, in the last instalment or on repayment of the loan, unless such failure or loss shall have occurred, in which case the loan shall be written off and the commission retained by the bank.

30. *Surplus funds and cash.*—All surplus funds and cash in hand beyond such amount as is needed for daily expenses shall be paid into the nearest Government Savings bank or treasury, if so permitted by Government.

31. *Stamps and forms.*—The bank shall provide itself with a stock of forms for the use of members, borrowers and others having dealings with it. It shall also obtain from the Collector of the district the right of vending stamps to members only and for the purposes or the bank, and shall maintain a sufficient stock of the necessary stamps.

32. *Other operations.*—The general meeting shall, from time to time, decide what operations may be undertaken for the benefit of its members other than the receipt and lending of funds, and within the scope of the association, and shall frame the necessary articles for the effectual carrying out of such operations.

33. *Union.*—The general meeting shall have power to determine whether the bank shall become a member of any union that may be formed for grouping co-operative banks in order to the better carrying out of the objects of the bank.

TABLES.

RESULTS of the Examination of 83,427 Registered Documents of the years 1889, 1890 and 1891 in 146 Offices of Ten Districts of the Presidency.

Class of document.	Year.	Profession of lender.		Profession of borrower.		Purposes of loan.								
		Ryots.	Others.	Ryots.	Others.	Settlement of prior debts.	Land improvement.	Purchase of land.	Purchase of cattle, seed, etc.	Payment of kists.	Renewal of debts.	Marriage, festivities and other unproductive purposes.	Not stated and indefinite.	Miscellaneous.
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Mortgages of Rs. 100 and upwards	1889 to 1891.													
	No.	24,023	12,479	31,111	5,391	15,008	487	1,919	333	255	921	4,313	12,867	399
	Percentage	65·31	34·19	85·23	14·77	41·16	1·33	5·26	·91	·69	2·49	11·82	35·25	1·09
Mortgages below Rs. 100	No.	22,558	10,558	27,270	5,846	9,686	437	1,038	902	293	736	4,430	15,369	225
	Percentage	6·812	31·88	82·35	17·65	29·25	1·32	3·13	2·72	·89	2·22	13·38	46·41	·68
Simple bonds	No.	9,241	4,128	10,027	3 342	3,701	252	285	434	175	216	1,701	6,130	473
	Percentage	69·12	30·88	75·01	24·99	27·69	1·89	2·13	3·25	1·31	1·62	12·72	45·85	3·54

Class of document.	Year.	Term of payment.								Amount of loan.					
		On demand.	No term.	Below 6 months and 6 months.	Above 6 months and not exceeding 1 year.	Above 1 year and not exceeding 2 years.	Above 2 years and not exceeding 3 years.	Above 3 years and not exceeding 5 years.	Above 5 years.	Rs. 25 and below.	Above Rs. 25 and not exceeding Rs. 50.	Above Rs. 50 and not exceeding Rs. 100.	Above Rs. 100 and not exceeding Rs. 200.	Above Rs. 200 and not exceeding Rs. 500.	Above Rs. 500.
16		17	18	19	20	21	22	23	24	25	26	27	28	29	
Mortgages of Rs. 100 and upwards.	1889 to 1891.														
	No.	10,025	3,225	953	7,327	4,467	4,235	2,957	1,764	..	..	9,489	13,866	9,430	3,712
	Percentage	28·68	9·23	2·72	20·97	12·78	12·12	8·45	5·05	..	..	25·99	37·99	25·84	10·17
Mortgages below Rs. 100	No.	9,241	2,565	1,542	8,521	4,321	3,334	1,458	536	5,074	16,575	11,456	..	..	..
	Percentage	29·32	8·14	4·89	27·04	1,778	10·58	4·62	1·70	15·2	50·05	34·59	..	..	..
Simple bonds	No.	2,004	890	1,734	4,138	1,3·71	1,237	756	433	1,683	4,225	4,089	2,086	1,327	549
	Percentage	15·45	6·86	13·37	31·90	13·71	9·54	5·83	3·34	12·05	30·32	29·27	14·94	9·49	3·93

Results of the Examination of 83,427 Registered Documents of the years 1889, 1890 and 1891 in 146 Offices of Ten Districts of the Presidency—*cont.*

Class of document.	Year.	Rate of interest.								Rate of penalty.							
		6 per cent. and below 6 per cent.	Above 6 per cent. and not exceeding 9 per cent.	Above 9 per cent. and not exceeding 12 per cent.	Above 12 per cent. and not exceeding 18 per cent.	Above 18 per cent. and not exceeding 24 per cent.	Above 24 per cent.	Not stated (including grain).	Miscellaneous.	6 per cent. and below 6 per cent.	Above 6 per cent. and not exceeding 9 per cent.	Above 9 per cent. and not exceeding 12 per cent.	Above 12 per cent. and not exceeding 18 per cent.	Above 18 per cent. and not exceeding 24 per cent.	Above 24 per cent.	Not stated (including grain).	Miscellaneous.
		30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45
	1889 to 1891.																
Mortgages of Rs. 100 and upwards.	No.	1,085	4,396	18,404	6,930	1,303	280	4,093	11	75	404	1,937	5,903	2,785	616	24,402	379
	Percentage ..	2·97	12·04	50·42	18·99	3·57	·77	11·21	·03	·21	1·11	5·31	16 17	7·63	1·69	66·84	1·04
Mortgages below Rs. 100	No.	460	11,27	12,693	9,006	4,034	1,380	4,398	18	38	90	561	4,098	3,790	1,870	22,208	462
	Percentage ..	1·39	3·40	38·33	27·19	12 18	4·17	13·29	·05	·11	·27	1·69	12·38	11·44	5·65	67·07	1·39
Simple bonds	No.	608	798	5,713	2,674	851	233	2,409	84	83	136	1,085	2,509	1,964	760	6,630	202
	Percentage ..	4·55	5·97	42·73	20·01	6·36	1·74	18·01	·63	·62	1·02	8·11	13·77	14·69	5·68	49·60	1·51

TABLE of 623,944 Registered Mortgages of 1890 and 1891 distributed according to duration.

Nature of the deed.	—	1 year and less.	Between 1 and 2 years.	Between 2 and 3 years.	Between 3 and 4 years.	Between 4 and 5 years.	Between 5 and 6 years.	Between 6 and 7 years.	Between 7 and 8 years.	Between 8 and 9 years.	Between 9 and 10 years.	Between 10 and 11 years.	Between 11 and 12 years.	Between 12 and 24 years.	No term.	Total.	Average mean period in years. Exclusive of column 16.	Remarks.
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
Simple mortgages of Rs. 100 and upwards.	Average of 1890 and 1891 ..	40,680	18,207	14,560	7,010	5,302	2,173	1,158	906	583	891	347	456	3,079	16,777	112,129	2·58	
	Percentage ..	36·28	16·24	12·98	6·25	4·73	1·94	1·03	·81	·52	·79	·31	·41	2·75	14·96	..		
	Minimum number of mortgages ..	20,340	18,207	29,120	21,030	21,208	10,865	6,948	6,342	4,664	8,019	3,470	5,016	36,948	33,554	225,731		
	Maximum number of mortgages ..	40,680	36,414	43,680	28,040	26,510	13,038	8,106	7,248	5,247	8,910	3,817	5,472	73,896	50,331	351,389		
Simple mortgages of Rs. 100 and below.	Average of 1890 and 1891 ..	43,466	15,158	9,821	3,577	2,388	880	397	292	199	263	129	312	2,546	17,306	96,736	2·05	
	Percentage ..	44·93	15·67	10·15	3·69	2·47	·91	·42	·30	·21	·27	·14	·32	2·63	17·89	..		
	Minimum number of mortgages ..	21,733	15,158	19,642	10,731	9,552	4,409	2,382	2,044	1,592	2,367	1,290	3,432	30,552	34,612	159,487		
	Maximum number of mortgages ..	43,466	30,316	29,463	14,308	11,940	5,280	2,779	2,336	1,791	2,630	1,419	3,744	50,920	51,918	252,310		
Mortgage with possession of Rs. 100 and upwards.	Average of 1890 and 1891 ..	4,066	3,345	8,116	3,797	5,376	2,461	1,980	765	1,020	1,418	679	4,536	5,184	4,566	47,309	6·14	
	Percentage ..	8·59	7·07	17·16	8·03	11·36	5·20	4·19	1·62	2·16	2·99	1·43	9·59	10·96	9·65	..		
	Minimum number of mortgages ..	2,033	3,345	16,232	11,391	21,504	12,305	11,880	5,355	8,160	12,762	6,790	49,896	62,208	9,132	232,993		
	Maximum number of mortgages ..	4,066	6,690	24,348	15,188	26,880	14,766	13,860	6,120	9,180	14,180	7,469	54,432	103,680	13,698	314,537		
Mortgage with possession of Rs. 100 and below.	Average of 1890 and 1891 ..	4,507	4,066	10,275	3,931	5,279	2,440	1,968	717	817	1,487	640	8,822	5,573	5,276	55,798	6·38	
	Percentage ..	8·08	7·29	18·41	7·05	9·46	4·37	3·53	1·29	1·46	2·66	1·15	15·81	9·99	9·45	..		
	Minimum number of mortgages ..	2,253	4,066	20,550	11,793	21,116	12,200	11,808	5,019	6,536	13,383	6,400	97,044	66,876	10,552	289,594		
	Maximum number of mortgages ..	4,507	8,132	30,825	15,724	26,395	14,640	13,776	5,736	7,353	14,870	7,040	105,862	111,460	15,828	382,150		

Abstract of the foregoing table.

—	Mortgages.						Indebtedness involved.				
	Rs. 100 and upwards.			Rs. 100 and below.			Rs. 100 and upwards.		Rs. 100 and below.		Total.
	Simple.	With possession.	Total.	Simple.	With possession.	Total.	Rate per deed.	Amount.	Rate per deed.	Amount.	
							Rs.	Rs.	Rs.	Rs.	Rs.
Minimum .. .. No.	225,731	232,993	458,724	159,487	289,594	449,081	326	14,95,44,024	44	1,97,59,564	16,93,03,588
Maximum .. .. No.	351,389	314,537	665,926	252,310	382,150	634,460	326	21,70,91,876	44	2,79,16,240	24,50,08,116
Mean .. .. No.	288,560	273,765	562,325	205,898	335,872	541,770	..	18,33,17,950	..	2,38,37,912	20,71,55,862

Explanation.—This table gives the mortgages of 1890 and 1891 distributed according to duration. It shows (1) that between 50 and 60 per cent. of simple mortgages are for expressed periods below 2 years; (2) that the average duration of simple mortgages is below 2½ years; (3) that the average duration of mortgages with possession is about 6 years; (4) that about 16½ per cent of simple mortgages and 9½ per cent of usufructuary mortgages are without expressed term, and are, therefore, probably repayable on demand.

The table is further intended to display the aggregate number of mortgages, and their aggregate value, existing at any moment. The number of mortgages for the year (mean of 1890 and 1891) being distributed according to duration by yearly rests, the possible minimum and maximum number of mortgages of each period is arrived at by multiplying the number in the first line of the column by the smaller and larger figure, respectively, for the period, *e.g.*, simple mortgages above Rs. 100 of between 4 and 5 years' period are 5,302; multiplying this number by 4 and by 5, gives the numbers of 21,208 and 26,510, respectively, the former being the minimum and the latter the maximum number of mortgages of this class and period which could possibly be in existence in the year, say, 1891, in question. The net result is tabulated in the "Abstract" table. The method, of course, is rough, but must yield a fair approximation to the truth. It follows that in the year 1891 there were not less than 907,805, not more than 1,300,386, and probably about 1,104,095, mortgages in existence, less those paid off before expiry of the term, valued at not less than about 17 crores, not more than 24½, and probably about 20¾ crores.

The numbers have increased of late years to some extent.

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Rev. A. Margoschis, Nazareth.

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,, I. Bhashiakarloo Nayudu Avergal, do.
,, Thiruvengadaswami Mudaliar Avergal, do.
Rev. Henry Little, Karúr.
" C. Rüger, Erode.

Salem District.

M:R.Ry. C. Venkatachariar Avergal of Kadathur.
The Salem Zemindars' Association, Tirupatúr, Salem.

South Canara District.

Rev. Frohnmeyer, Tellicherry.

Bellary District.

The Jayalakshmi Bhándára (Limited), Hospet.
" Main Bazaar Fund (Limited), Bellary.
,, Bellary Cowl Bazaar Public Mutual Benefit Permanent Fund (Limited), Bellary.
,, Cowl Bazaar Hindu Permanent Fund (Limited), Bellary.
,, Bellary Brucepettah General Fund (Limited), Bellary.

Anantapur District.

The Penukonda Mutual Benefit Permanent Fund (Limited), Penukonda.
,, Tadpatri Hindu Benefit Permanent Fund (Limited), Tadpatri.
" Uravakonda Kalikadevi Bazaar Sakala Janopakara Dhana Sahaya Nidhi (Limited), Uravakonda.
,, Anantapur Mutual Benefit Fund (Limited), Anantapur.

Kurnool District.

The Kurnool Public Fund (Limited), Kurnool.

Nellore District.

The Nellore Permanent Hindu Mutual Benefit Company (Limited), Nellore.

Chingleput District.

The Mambalam Kasi Viswanadha Sahaya Nidhi (Limited), Mambalam.
,, Chingleput Dhana Sekhara Nidhi (Limited), Chingleput.
,, Conjeeveram Parasaparopakara Saswatha Nidhi (Limited) Conjeeveram.
,, Mount Hindu Mutual Benefit Permanent Fund (Limited), St. Thomas' Mount.
,, Alandur Sri Anjaneyaswami Janaukulu Nidhi (Limited), Parethwaukam.
" Thiruvothiyur Sri Sivasubbaramaniaswami Dravya Sahaya Nidhi (Limited), Thiruvothiyur.
,, Tinnanore Kothandaramaswami Dhana Sahaya Nidhi (Limited), Veppambedu.

North Arcot District.

The Wandiwash Koottu Chattu Dhanasahaya Nidhi (Limited), Wandiwash.
,, Srimath Gudiyatam Chaturvarnia Samayanookula Porul Sahaya Nidhi (Limited), Gudiyátam.
" Srí Vannimanagaram Sakalajana Manoranjetha Dravya Sahaya Paksha E'la Nidhi (Limited), Vannimanagaram.
,, Sathvacharry Jana Sahaya Nidhi (Limited), Sathvacharry.
,, Kangayanellore Sahala Janopakara Maha Nidhi (Limited), Kangayanellore.
,, Panapakam Sakala Janopakara Nidhi (Limited), Panapakam.
" Vellore Srí Sarvajanopakara Nidhi (Limited), Vellore.

South Arcot District.

The Cuddalore Hindu Permanent Fund (Limited), Cuddalore.

Trichinopoly District.

The Trichinopoly Hindu Savings Bank (Limited), Trichinopoly.
,, Trichinopoly Jennore Hindu Permanent Fund (Limited), Trichinopoly.

Madura District.

The Madura Paksha Dravya Sahaya Nidhi (Limited), Madura.

Coimbatore District.

The Bhaváni Vara Dravya Sekhara Sahaya Nidhi (Limited), Bhaváni.
,, Coimbatore Janopakara Nidhi (Limited), Coimbatore.
" Coimbatore Swadesa Dravya Sekhara Nidhi (Limited), Coimbatore.

Salem District.

The Salem Town Bank (Limited), Salem.
,, Edapady Janopakara Vara Porul Sahaya Nidhi (Limited), Edapady.
,, Sankaridurgam Chanda Sahaya Vara Dhana Sekhara Sahaya Nidhi (Limited), Sankari-
,, Salem Dhanapakara Nidhi (Limited), Salem.

Madras.

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The Egmore Benefit Society, Egmore.
,, Permanent Investment, Saving and Lending Society (Limited), Madras.
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,, Madras Deposit and Benefit Society, Madras.
,, Mylapore Hindu Permanent Fund (Limited), Mylapore.
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REPORT

REGARDING THE POSSIBILITY OF INTRODUCING

LAND AND AGRICULTURAL BANKS

INTO THE

MADRAS PRESIDENCY.

VOLUME II.

45

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1897.

PREFACE.

THE present volume, being the second of the Report on Land and Agricultural Banks ordered in G.O., No. 173, Public, dated 15th March 1892, requires few introductory remarks.

It consists almost entirely of a selection from the laws and articles of the several subjects touched upon in Volume I, viz., Land banks, Agricultural credit, Popular banks, Agricultural associations, Savings banks, and Madras Nidhis (Loan Funds), together with a miscellaneous chapter on various topics; an index has also been added.

It has been found impossible or unnecessary to translate and enter all that was noticed in the first volume, *e.g.*, German laws, each for separate land banks, with several hundred sections in each. So also the 'general law for societies,' as contained in the commercial codes of the several countries in Europe or of the various States of the United States of America, would require a volume to itself with extensive notes, and be but slightly useful, since the point insisted on in Volume I—see preface to Volume I, pages xi and xii,—was not the necessity for revising the company law of India, except as regards co-operative societies, but the necessity for devising a separate law to deal with rural banks, co-operative societies, and agricultural associations. Hence a mere reference to the general company law of Europe and the United States of America has been made, with a note of a small compendium found in a British blue book; Article I of Chapter XXXVII of the general laws of the State of New York (the Banking law of that State) has, however, been printed in Chapter VII, with a view to show the duties and powers of the Superintendent of Banks.

But the laws affecting various classes of banks, co-operative societies, and associations have been given with some fulness, as will be seen by the 'Table of Contents' for the several groups of subjects; the articles governing many classes of societies, either model or actual, have also been freely given. In the case both of laws and articles it has usually been found advisable to condense or excerpt, rather than to give the text complete, since many sections are either the result of the general laws, constitution, and customs of the several countries, or are of so ordinary a nature as not to require entry in a work which merely displays the various provisions of the law in order to supply hiatuses in Indian law, or to illustrate particular points, such as the amount and nature of State supervision, the gratuitousness of the services rendered by bank or society officers, the privileges—such as they are, outside of the special laws and State supervision—granted to societies, any special methods of internal supervision and audit as by the 'committee of supervision' or by the inspectors of unions of societies, the methods of financing societies and of grouping them in circles or unions, and so forth.

Considerable new matter has been added in this second volume to the chapter on 'Agricultural Associations' in the first volume. Not only have the articles of a variety of French associations been entered, but a wholly new section has been added on the Irish Agricultural Organization Society; the matter entered with regard to this society is of the highest interest, as it affords a peculiarly appropriate

exemplar for the Madras and perhaps other presidencies. The work described in that section is rapidly growing, the number of new co-operative societies and the development of the older ones showing constant and rapid progress; the figures given in the article are already out of date.

It is intended to issue shortly a brief study of the work of this organization society. Meanwhile the special attention of the reader is requested (1) to the necessity for dealing with associations rather than with isolated, unorganized peasant farmers if progress in any form is desired; on this point see especially page 185 of the present volume; (2) to the power of agricultural associations to develop credit annexes or separate credit associations, and, conversely, to the power of credit associations (village banks) to promote progress and co-operation in every branch of village life; De Laveleye considered that the rural popular banks of Italy in every case formed centres of economic progress, while the Raiffeisen and Wollemborg village banks are not only centres of economic but of mental and moral progress: see Volume I, pp. 4, 170, 218 *et passim*, and the introduction to Chapter IV of this volume.

It was intended to add a companion Prussian law to the French law on Land Improvement Associations, for the Prussian law of 1st April 1879 is the correlative of the above-mentioned Prussian law on Land Improvement Annuity banks (Landeskultur-Rentenbanken) and deals with associations—both free and compulsory as in France—for irrigation, drainage, water works, and navigable ways. This law, with its model articles, must wait a more convenient season for translation and comment.

In Chapter VII (Miscellaneous) will be found some interesting items, especially those on Usury laws, on commercial books, and on the duties of the Italian Minister of Agriculture, Trade and Industry. The latter subject is only treated with reference to the subject of credit and thrift, but the whole duties of this much-worked Minister are immense; for a mere abstract of these, see Commercial 12 of 1889, 24 of 1889 and 3 of 1894 (Parliamentary papers); in an Italian manual a similar list, with brief descriptions, occupies 25 pages, irrespective of examination programmes and a list of the laws dealing with the subjects.

In this connection, though not *strictly* within the province of this report on rural credit, reference may be made to the report and recommendations of the Irish Recess Committee of 1896, dealing with the agricultural and industrial condition of Ireland, and more especially to the appendix to the same containing, *inter alia*, a description of the Württemberg Bureau of Trade and Industry, headed for so many years by Dr. Von Steinbeis, and of its extraordinary results upon the industries of that kingdom. The report of the committee, which necessarily mentions rural credit as an essential in rural life, was issued after the completion of the present report and could not be utilized therein; a separate study will shortly be issued after a visit to Württemberg with a view to enquiry from an Indian standpoint.

The usury laws are examples of modern effort, in some of the foremost countries, to deal with this perplexing subject.

It is hoped that the index will prove full and useful.

The two volumes of this report are now complete, and are intended rather as a clearing of the ground and as a provision of material, than as formulating a cut-and-dry scheme, as indeed has been noted in the preface to Volume I, *ad finem*.

Still, a draft bill, not however in legal form, the necessity for treating the difficulty of rural credit by village banks, a specimen—not model—set of articles for such banks, and the suggestion for the creation of an organization society after the manner of the new Irish society, have been distinctly propounded; whether the scheme or any part of it will take hold of the public is a question to be determined by time, by the habits, hopes, and powers of the people, and by the energy, wisdom, and prescience displayed in any propaganda, official or demi-official, private or public, which may be started. The writer has been favoured with but few criticisms on Volume I, a matter for regret, because public interest cannot be aroused without discussion including the freest criticism of matters that appear undesirable or impossible; probably the review by the Board of Revenue and the orders of Government may arouse both criticism and practical effort.

Objection has been raised to the weight and size of Volume I—an objection which will probably be increased by the appearance of Volume II. It must, however, be remembered that a whole *series* of subjects, each of which fills many volumes in European literature, has been treated, and that it is a mere accident that the series appears under one cover, while the Madras section (Volume I, Part II) is but a brief analysis of much that, on a future occasion, may be dealt with in far greater detail—viz., the indebtedness and credit systems of the presidency—with a synthetical addition in the shape of a draft bill, specimen articles, &c. A mere analysis of the replies received to the *questionnaire* issued would be a respectable volume. However, it is hoped to issue shortly a pamphlet on the subject, simply, of village banks, and this may prove more attractive.

As mentioned on page 241 of Volume I, the subject of the indebtedness of the ryot is somewhat outside of the scope of this report, and the chapter on that subject (Volume I, Part II, Chapter II) is, consequently, imperfect; data are insufficient for an accurate and complete statement of the causes, whether ultimate or immediate, of indebtedness; for a fairly approximate estimate of the amount of indebtedness and of the ratio of the several classes of debt whether mortgage, chattel, or personal, in money or in kind; for a pronouncement as to the increase or decrease of the burden of debt whether absolute or relative to the increase of population and produce; for useful and practical deductions as to the results of such indebtedness on the condition and position, present or future, of the land-holding classes; and for proposals—apart from those for the encouragement of village or other banks—to meet the public and private, State and individual difficulties which the indebtedness of the ryots produces. An enquiry into agricultural indebtedness which should yield answers to the above and cognate questions would be one of serious labour, but is one which, in the opinion of the writer, is of the most immediate and radical importance in the domain of practical Indian economics and in State administration.

Objections have been raised to the elaborateness of the specimen village bank articles; they may be elaborate, but it was attempted to enter all that was advisable and perhaps necessary, and it is pretty certain that whether the articles of such banks are long or short, the directors will, whether without leave or by leave, have to act on very detailed rules. If articles are short, they may be intelligible, but the directors will be working without rule, or through bye-laws which, though useful and necessary, ought not to widen the articles.

It has been said that the ability of ryots to combine and to trust one another has not been dwelt upon. This is incorrect; the subject has been touched upon both

directly and by implication in paragraph 28 of the report and in the chapter—that on Madras Nidhis—on which that paragraph is based. A paragraph on page xi of the preface to Volume I, and paragraph 31, last sub-paragraph, of the report, also touch on this point which is more fully dealt with in several places on pages 373 to 375 of the appendix. Still, it is not pretended that village banks or co-operative societies could at once be a success; on the contrary, one great feature in Volume I is the suggestion of difficulty in initiation as shown by European history; it is only long-continued, energetic, public and private effort, that can bring about success. State assistance and privileges, strenuous private effort, the action of a central *organization* society or societies, have been expressly invoked; paragraphs 18, 31—34 and 38 of the report, and the appendix *passim*, both Parts I and II, deal with the work that has been necessary even in Europe, and that will be necessary in India before associations can become a success; *see* also the first section of Chapter IV in this volume, on the Irish Agricultural Organization society, for further remarks or suggestions. The writer would add his complete confidence in the Indian village ryot to combine in honest co-operation, *provided* that due attention is paid to the subject by the authorities and by the men of influence in the country, especially in the rural parts; this opinion is based not merely on the example of Europe, but on the history of the Indian village, on considerable experience of village life and work, and on the history of the Nidhis and Chit associations.

The writer's motto for the initiation of village banks continues to be "*Solvitur ambulando;*" great measures are always 'impossible' till they are found to be successful, and success depends upon incessant experiment, perseverance, and courage; the problem is insoluble till it is attacked in actual experiment.

CLIFTON,
28*th July* 1896.

F. A. NICHOLSON.

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CHAPTER I.—LAND BANKS.

STATUTE OF THE POMERANIAN MUTUAL LAND BANK (LANDSCHAFT.) *

Chapter I.—Debentures (Pfandbriefe) in general. †

1. Pomeranian debentures are engagements made against the mortgage issue of the bank. They are issued to bearer, not repayable on his demand (von diesem nicht kündbar) nor by the bank except in accordance with this statute, and are duly secured by the subsequent provisions.

2. They bear interest at 3⅛ to 4½ per cent. per annum payable half-yearly, while the mortgagors to the bank pay from 4 to 5 per cent., on their loans, the difference *plus*, if necessary, one-sixth of one per cent. paying the cost and risk of the administration. Further debentures may be issued at 3 per cent. upon mortgages at 3½ per cent.

3. Holders of debentures are paid by the bank only, and have no direct relations with the mortgagors.

The debentures are secured not only by the properties against the mortgages of which they are issued, but by all the mortgaged ‡ properties within the sphere of operations, against which they have all the claims which the bank has against its debtors; also by the own property of the bank.

All mortgages have the same privileges.

4. Loans may be granted (debentures may issue) up to two-thirds of the valuation of an estate.

5. Debentures may only issue as first mortgages.

6 A candidate for a loan must (in case of prior mortgages or charges) first prove the redemption of all prior claims, or obtain their cession to the bank, or procure the precedence of the bank in the registration books.

7. (Omitted).

Chapter II.—Property of which Loans may issue.

8. All properties of certain classes assessed to the land tax on a minimum *net* income of £75, or of other classes assessed on a similar income of £150, may obtain loans; also (certain other classes of properties if of 625 acres in extent or assessed to the land tax on a net income of £150).

9. (Omitted).

10. All buildings included in the valuation must be incurred in the society attached to the bank.

Chapter III.—The Royal Commissioner and the Bank Authorities.

11. Every matter relating to the maintenance of the bank's system and to the principles laid down in the present articles, is placed under the chief supervision (Oberaussicht) of the minister for agriculture, and under the special supervision of a Royal Commissioner, the appointment of whom is reserved to His Majesty.

12. The Royal Commissioner is at the head of all the authorities of the bank and moreover must see that at all times the articles and principles of the bank are carried out.

13. He presides over the general meeting and the permanent select committee without, however, having any vote at these meetings except in the cases mentioned in sections 116 and 135 (casting votes at both meetings). In his absence sections 116 and 127 apply. (The director-general of the Landschaft, or the oldest councillor present, presides in that case.)

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* This was founded in 1781 by special statue with the object "of granting long term and well secured real credit by the issue of land mortgage debentures (Pfandbriefe) on the mortgagable properties in Pomerania." This includes only the 'noble' and not the peasant properties.

Each of the old Landschaften is governed by a special statute passed for its formation: these were frequently revised as experience required. The statute here partly translated is that current in 1889 and is given as a specimen of the methods and privileges of these ancient land banks. The corresponding statute of a new Landschaft will also be given.

Only so much is translated or abstracted as seems of importance: the statute runs to 304 sections in immense detail, so that the statute forms at once the law, the articles, and the rules of business for the bank. Many of the sections are merely abstracted, some roughly translated, others translated in full. Some are omitted as being only of local application: *see* Vol. I, pp. 48-58 and 59-93, &c.

† The general German law of land mortgage debentures is, of course, not contained in this statute. But those institutions entitled to issue them are governed by similar provisions. For the sake of brevity they will hereinafter be mentioned simply as 'debentures.'

The Landschaft method of financing their loans is *simply* the issue of debentures: a loan is requested and sanctioned: debentures are then issued for the amount of the loan, which is then paid over to the borrower (either the debentures themselves or in cash); hence the common equivalent in the statute for the granting of a loan is that 'debentures may issue.' But the debentures are secured not by that particular mortgage merely, but by the whole mass of mortgages, and by the reserves, &c., of the bank: *see* Vol. I.

‡ Also in certain districts, by the non-mortgaged, but mortgagable (bepfandbriefungsfähigen) properties.

14. He is entitled at any time to call for a report and whenever he thinks necessary to order an audit of the cash and accounts, and to be present thereat.

15. The business of the bank is managed, under the Royal Commissioner.

(1) by the four District Boards and District Councils (Departments-Direktionen and Departments-Kollegien);
(2) by the general committee;
(3) by the select committee (vom engeren Ausschusse);
(4) by the general meeting.

All these authorities form public bodies with the rights mentioned in " the general law (Landrecht) sections 114, &c., of Part II, Chapter X." Documents issued within their spheres of operation have the status and validity of public documents. No suit lies against any decisions made according to the rules of their constitution. An appeal from the decisions of the district boards and councils lies to the general committee against whose decision a second appeal lies to the select committee, or, as the case may be, to the general meeting when the latter meets at a date earlier than the select committee.

* * * * *

* CHAPTER IV.—DISTRICT BOARDS AND COUNCILS.

17. Deputies elected by the several circles (Kreis, taluk) in each district represent the district and, with the district board, from the district council.

18. The district board consists of a director, two councillors, and a syndic (standing counsel).

19. The director of the district board is elected by the proprietors of the several properties situated within the district and which may be or which are the subject of a loan with the bank; his appointment is subject to royal confirmation.

20. The person elected is bound to accept office unless he can give a valid excuse.†

21. An excuse to be valid must be such as would under the common law release a man from the duties of guardianship; he is also excused if he has already acted as officer of the bank for six years.

* * * * *

35. (Provides for his pay, and batta outside of his chief town.)

* * * * *

37. The two district councillors form with the director and the syndic (counsel), the district board, and are obliged to undertake any special duties with which they may be commissioned by the director in the interest of the district.

38. They are elected in the same way as the director, but the royal confirmation of their election is unnecessary.

39 to 57. (Recite the duties of the district board; *see* Vol. I, page 52; the following sections are of interest.)

* * * * *

43. For business outside of the chief town of the district and of their own town, councillors are entitled to daily batta and journey money, besides their fixed pay.

* * * * *

47. The district board must watch over the business management of any properties mortgaged to the bank (within their district) and must interpose in case of changes of management or disorders which may endanger the security of the bank.

* * * * *

49. Every member (*i.e.*, of the bank which is a mutual association), but especially the local deputy, is bound to report to the district board, should he notice in any mortgaged property, any irregular management or essential change in its working, or any important reduction of value. No notice is to be taken of anonymous or unauthenticated communications.

* * * * *

58. Every circle elects from among the proprietors possessed of votes resident within the circle and owning properties capable of being mortgaged or already mortgaged (to the bank), deputies and vice-deputies (*see* section 17 *supra*). Every such person is bound to accept office unless he can offer a valid excuse, as entered in section 21 *supra*.

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* Chapters IV to VIII inclusive recite in great detail the duties and powers of the four classe of authorities mentioned in section 15 *supra*; these are described with the sufficient fulness on pp. 51 and 52 of Vol. I. Only a few sections of special interest are here translated. All the authorities are required to take oath on assuming office; the offices are public, and cannot, save for certain reasons, be refused.

† The corresponding sections of the West Prussian Landschaft are as follows:—

Part II, 9. Every proprietor of an estate belonging to the Landschaft Association is bound to undertake the duties of a director, councillor or deputy should he be elected to that office.

10. The person elected can only decline office:—

(1) if he has already filled an office in the bank for full six years;
(2) if he has the actual management of a triple trust;
(not very clear: the German is " drei mit einer wirklichen Vermögens-Verwaltung verknüpfte Vormundschaften zu führen;")
(3) if he has passed his sixtieth year;
(4) if he fills a Government post.

59. The duties of the deputies are two-fold—

(1) as members of the district council in meeting;
(2) as its deputies in matters of supervision (section 49), of valuation of the management of attached properties, and in any matters concerning the interest of the bank with which they are commissioned by the district board.

* * * * *

65. The deputies receive for their presence at the two regular half-yearly meetings of the council a sum of £7–10–0 together with the costs of their journey.* They are also entitled to daily batta and journey money as in sections 35 and 43 *supra*.

66 to 69. (Relate to duties of the district council (*see* Vol. I, page, 52).)

70 to 75. (Relate to the duties of syndic or counsel who must have passed the examination required for that of pleader in a court.)

76 to 83. (Relate to the office staff and records.)

Chapter V.—General Committee.

84. At the head of the administration is placed the general committee consisting of the director-general, two councillors and the syndic general with their staff appointed with the sanction of the select committee.

85. The director-general and councillors are elected by the deputies of the four districts subject to His Majesty's confirmation.

86. (Only proprietors whose estates are mortgageable or mortgaged to the bank can be elected—the rules of section 36 apply to these officials.)

* * * * *

Chapter VI.—The Circle Meetings.

103. Every deputy (*see* section 58) summons as often as may be necessary and at least once a year on the invitation of the district board, all the qualified proprietors † of the circle, communicates to them whatever of interest has happened within the bank since the last circle meeting, lays before them the half-yearly accounts and the decisions of the select committee, mentions the valuations, grants, and redemptions of loans that have taken place in the district, and requests and notes their remarks on all affairs which require deliberation by the members in order to bring them to the district council.

104. For personal co-operation in these meetings and for the exercise of the power of voting, it is necessary for members—

(1) that they should be of thorough business capacity;
(2) that they should own an estate entered on the estate register (landschaftliche Matrikel).
(3) that they should be of unblemished reputation.‡ The circle meeting decides when necessary in matters relating to disqualification, with an appeal to the select committee.

* * * * *

108. At elections each member has but one vote, however, many properties he may hold in the same circle; on other occasions the holder of from 4 to 7 independent and qualified estates has two votes, the holder of 8 or more three.

* * * * *

112. Members who are in receipt of public poor-relief are not entitled either to be present at the meetings or to vote. The above rights are also refused to a bankrupt member.

Chapter VII.—The Select Committee. §

113. The select committee ordinarily meets once a year; each district sends a deputy and its director.

114. The deputies are bound to attend to the instructions which they have received, as opinions, but they are not bound by such instructions, nor responsible if they depart from them. They are unrestricted in their decisions and in their voting, and must vote according to their conscientious conviction for the interests of the bank.

As a rule the committee only decides finally upon matters laid before them by the district boards, and which pertain to the circle meetings (in matters of urgency this rule need not be observed, especially in matters of current business).

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* But for this salary they have also numerous other duties and responsibilities for which they are unpaid or draw only batta and travelling expenses, or, in the case of the management of attached properties, a small additional commission or stipend: *see* sections 59 and 181.

† It will be observed that not merely borrowers are summoned but all those who hold land of a certain status (noble) within the area of operation; the bank thus becomes a people's bank in a large sense of the word though confined to particular classes.

‡ This qualification—unbescholtener Ruf—is regularly found in the statutes or articles governing German societies, especially of the mutual type, whether they be Landschaften or Raiffeisen co-operative societies.

§ The general meeting, *i.e.*, the calling together of all the proprietors of a province, is costly and difficult; such meeting accordingly takes place but seldom; the select committee, therefore, to a great extent represents such general meeting.

115. The committee is the controlling authority over the general committee in the district board, considers and passes all the accounts and gives the final decision in disputed matters.

Deviations from or alterations of this statute and the imposition of new duties on the associates, cannot be determined or sanctioned by the committee but only by the general meeting.

116. The Royal Commissioner presides over the meetings of the committee with a casting vote in case of equality.

* * * * *

Chapter VIII.—The General Meeting.

(There is nothing of such special interest as to require translation.)

* * * * *

Chapter IX.—The Execution of the Bank's Orders.

137. Every member of the institution is bound to submit to the orders of the several departments of the bank which relate to the maintenance and execution of the provisions of the credit system.

138. The authorities of the bank are authorized to ensure the observance of their orders by the infliction of fines or by such other coercive means as are permissible by this statute. All the Courts are bound promptly and without objection to assist the bank upon their demand in such cases.

139. Should these means not induce the parties concerned to perform their duty, the district board is authorized with the consent of the general committee to demand the repayment of any loan (due by such member) and with this view, should threats be useless, may in the last resort, proceed to the forcible sale of the mortgaged property. The local Court must carry out such sale.

140. Should the accused be dissatisfied with such decree it is open to him to present his complaint to the select committee, or to the general meeting should the latter assemble earlier; their decision is final.

141. All members and officials of the several departments of the bank are bound to obey the orders of their superiors under pain of punishment by law.

Proprietors assembled at the circle meeting are bound to obey in all matters the provisions of this statute and the resolutions and orders of the superior authorities of the bank.

142. The owner of a mortgaged estate is bound to intimate to the district board the leasing of his estate within 14 days of such leasing and must send a certified copy of the lease deed, failing which his loan can be called in on three months' notice from the end of the half-year.

The district board is bound, should the security of the loan be endangered by such leasing, and especially by any alienation of the stock of the farm, to order the calling in of a suitable portion of the loan on at least three months' notice.

Chapter X on the valuation of properties, and Chapter XI on the issue of debentures and their interest coupons, do not appear to require translation.

Chapter XII.—The Payment of Interest on Loans from the Bank.

A.—Ordinary payments. (No matters of special interest.)

* * * * *

B.—The collection of arrears from borrowers by coercive process.

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177. Since the interest on debentures must under all circumstances be punctually paid to the holders, it is necessary that the bank's debtors should strictly pay their dues on the fixed dates.

178. On the expiry of the dates fixed for the payment of the interest on debts, the cashier must prepare a list of arrears with the names of the properties, the amount of interest due, and the names of the proprietors, and send the same to the directors who will at once, should a special notice prove unavailing, charge the appointed bailiff * with the execution of the necessary coercive process.

The provisions of sections 46 and 47 of the General Law, Part I, Chapter XX, do not apply to the claims of the bank, namely, that the debtor can demand that the creditor shall first proceed against the estate.

The sale of the distrained property shall be carried out in public auction by the bailiff. With regard to the articles which constitute the stock of the farm (Guts-Inventarien-stücke), only such items may be sold as are superfluities (Super-Inventarien-stücke, *i.e.*, are not essential to the working of a farm). The directors will, when necessary in such cases, commission a councillor or deputy or other member, in conformity with the provisions of section 1715 (5), Civil Procedure Code, to examine on the spot what part of the stock can be conveniently dispensed with without detriment to the working of the farm.

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* Vollziehungsbeamten; it is not quite clear whether this bailiff is an officer of the bank or an officer of the Court; apparently the latter, since the rules of 1846 expressly enter the words 'of the Court.' Moreover section 138 requires that penalties inflicted by the bank authorities shall be executed by the Courts; in the case of other Landschaften (*see* translations, *infra*) the matter is made clear. The second and third paragraphs of the section show that the coercive process mentioned in the section relates only to the distraint of movables, which must always precede process against immovable property.

179. Should it appear that process against the debtor's movables will have no sufficient result under the circumstances of the case, the bank may desist from such process. The directors may in that case, as also when the sale of the distrained property fails to cover the arrears and cost, proceed against the estate itself.

180. Process against the estate is either by attachment and management, or by sale.

181. Should it be decided to attach and manage the estate the district board deputes a councillor or deputy with the aid of the syndic (counsel) or failing him of a Court officer, to initiate the attachment. The land registrar is also informed, so that the fact of the sequestration may be registered (over against the registration of the mortgage in the Grundbuch).

Either a councillor, deputy, or member of the bank shall be appointed as manager of the estate. He will draw an annual honorarium at the rate of two marks per thousand where the estate is valued at 75,000 marks or less, and at one mark for every one thousand in excess of such sum.* He will also draw journey money at 2½*d.* (20 pfennigs) per kilometre.

182 to 210. (Contain elaborate rules for the management of the estate.)

211. When after careful consideration the directors are of opinion that the above-mentioned methods will fail to produce the interest and other costs due to the bank, they are entitled, with the consent of the district board to proceed to the sale of the mortgaged property, and the Court having jurisdiction is bound, on request of the directors, to institute proceedings for such sale without previously taking cognizance of the matter (*i.e.*, without prior suit). The Court shall satisfy the claims of the bank from the proceeds of the sale, without requiring the bank to make any special proof of the correctness of its claims otherwise than by putting in a certified copy of the account showing the outstanding capital, interest, costs, and any charges for management.

The payment of the bank's claims may not be withheld by reason of any mere opposition by third parties interested in the estate. But such persons may bring a special plaint against the bank, if they consider that they can prove inaccuracy in the bank's claims.

These privileges are also applicable in the case where the sale of a mortgaged estate takes place on the motion of another creditor.

* * * * *

215. It is not necessary for the bank to come forward at any meeting of creditors (in bankruptcy of the bank's debtor), or to bear a portion of the common costs: on the contrary, it is entitled to the re-imbursement of its own charges for management of the estate, and to require such payment from the income of the property or from the proceeds of its sale.

216. Should the bank be obliged to buy in at auction any property in order to cover its claims, it shall for one year be freed from the payment of the stamp duty on the transaction. Should the property remain in possession of the bank beyond the first year, one-twelfth of the duty is chargeable, while after the thirtieth year, the full amount must be paid.

C.—The grant of time for payment.

217. If it be shown that a debtor of the bank has fallen into arrears through misfortune and not through any bad management on his part, the director of the district board may grant a reasonable delay.

218. The matter must be brought before the next meeting of the district board which will settle the period allowable.

219. At the end of such period the debtor must pay the arrears; failing such payment the bank must rigorously (mit aller Schärfe) proceed to recovery by coercive process.

D.—The payment of interest in arrears.

220. The own capital (section 295) of the bank is specially intended to provide, by way of advance, for any outstanding interest.†

Any arrears of interest due to the bank are charged with interest at 5 per cent., and such charge is made for the full quarter without regard to the actual date of the payment by the debtor of any amount advanced by the bank on account of such arrears. This rule holds good for all advances made by the bank.

The general committee of the bank may grant a reduction of such charge in particular cases of hardship brought to its notice by its several officers.

221. In case of any outstanding interest, the district board must take prompt measures to provide funds for the payment of the interest coupons, especially in cases where time has been granted to the bank's debtor.

222. Any person who makes any advance of funds to cover arrears of interest due by the bank's debtors, shall have the same rights (of recovery) as the bank, and if such advance shall not be repaid at due date the district board must, at his request and free of cost, carry out against the debtor such coercive process as they would be entitled to carry out for arrears due to the bank.

223. For such purpose the lender of the money must obtain from the directors an acknowledgment of his payment which shall contain a promise by the bank to proceed against the debtor by way of coercive process in case of arrears.

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* The smallness of the stipend s to be noted. It would be difficult in the Madras Presidency to get a bank director to manage an estate worth Rs. 50,000 for Rs. 100 per annum or Rs. 8-5-4 per month.

† *I.e.*, due by the debtors to the bank, and consequently by the bank to its debenture holders, since each debenture represents a debt or part of a debt to the bank.

224. To avoid any abuse of such privilege it shall hold good only for one half-year, at the end of which period the creditor must demand the issue of process by the bank or lose his preferential right.

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CHAPTER XIII.—THE PAYMENT OF INTEREST TO THE HOLDERS OF THE INTEREST-COUPONS OF DEBENTURES.

234 to 242 have nothing of special interest except that section 236 provides that "no attachment of such interest at the office of the bank shall be valid." This is a general provision in the European Land banks, and will be found in the law governing the French 'Crédit Foncier'; it is, of course, intended thereby to obtain a large market for the debentures.

CHAPTERS XIV, XV AND XVI.

(Sections 243 to 294) provide rules in great detail for the redeeming and calling in of debentures, for their amortization, &c.

CHAPTER XVII.—THE OWN FUNDS * OF THE BANK, AND THE MANAGEMENT THEREOF.

295. The own capital of the bank is intended—
(1) to cover the costs necessary for the maintenance of the system;
(2) to advance (to holders of debentures) the interest in arrears (by the bank's debtors);
(3) to advance the costs of managing estates under attachment;
(4) to cover any losses.

STATUTE OF THE EAST PRUSSIAN LANDSCHAFT. (LAND BANK.)†

Debentures (*Pfandbriefe*).

* * * * *

5. The bank's debentures are debt-bonds issued by the bank against the mortgages held by it on properties mortgagable (section 23) to the bank.

The total amount of such issue shall at no time exceed the total value of the outstanding mortgages held by the bank.

All debentures are to bearer, and shall be governed by the rules of this statute.

The holders of debentures cannot claim (at will) the repayment of the value of their debentures, but the bank can call in and repay such debentures at any time upon six months' notice. ‡

6. (The interest is fixed at $3\frac{1}{2}$ per cent. per annum, with leave to the general committee to issue at other rates from 3 to $4\frac{1}{2}$ per cent.)

7. The interest payable by the bank's borrowers shall be the same as that payable by the bank on its debentures, and shall be paid half-yearly.

8. The bank must pay the interest on its debentures without delay or cost to the holders on presentation of the interest coupons. The debenture holders have no connection with the borrowers from the bank, to which alone the holders must look for the satisfaction of their claims.

9. Besides interest and sinking fund (section 178) the borrowers must pay to the bank the amount fixed by the general meeting for covering the costs of administration. Any changes in the rate of such contribution require royal confirmation.

10. The bank is authorized to collect all its legal claims from its mortgagors (debtors) without any Court proceedings and by the coercive processes allowed to it.

The coercive processes special to the bank are—
(1) the distraint of all movables including claims due (to the debtors) by their debtors;
(2) attachment of the estate;
(3) forced sale of the estate.

Distraint is made according to the rules for administrative coercive process. The general board is the authority for ordering and conducting coercive process.

11. The courts are bound to take into consideration the registered debt due to the bank when a property mortgaged to the bank forms an item in the schedule of a bankrupt's property, or is the

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* It will be remembered that these Landschaften have no capital in the ordinary sense of the word; the funds used are those drawn from the public by debentures, which are issued by the bank in representation of each loan as it is granted, and are based in their totality upon the whole mass of the mortgages held by the bank, and in the last resort (in some Landschaften) upon all the properties of certain classes of estate-holders within the sphere of operations. But for the purposes mentioned in section 295 some disposable capital was found necessary: this was at first provided by an advance of £30,000 by Frederick II at the commencement of the system (1781), from the one-sixth of one per cent. charged on the grant of a loan as commission for the very purpose of forming a fund, and from profits. As the bank is administered very economically, and as there are no dividends, the own funds are now considerable, and it is believed that the original State grant has been repaid.

† Extracts will be given from the statutes governing several other of the Landschaften to display the nature of their administration, and any differences in method which may be of interest.

The East Prussia Land bank was founded in 1788, for the benefit of 'Noble' properties only.

‡ That is, although all such debentures are repayable gradually and completely within a certain period under the operation of a sinking fund, the holder of any particular debenture cannot demand at pleasure such repayment: he must wait till it is drawn or till the bank calls it in. On the other hand the bank has the power of repaying any debenture at any time on notice.

As the debentures are excellent investments and are all issued to bearer, a holder in want of his money simply sells his debenture in the market.

object of coercive attachment or sale. The bank is entitled in cases where such property is under its management to be recouped as a first charge in the actual costs of such management and of any costs of restoration (to a good condition), as also in any arrears of interest, and to claim such dues in priority to other creditors out of the sale price. Only after the bank has been satisfied (in such matters) shall the surplus income or sale price be divided.*

12. (Debtors in arrears must pay at the rate of 5 per cent. per annum on all advances made by the bank to debenture holders and others, on account of such arrears. If such advances are borrowed by the bank, the debtor is bound by the terms agreed upon with the bank's creditor. In case of these advances the bank's debtor must give and register security to the amount of 0·5 per cent. of his original loan.)

13. The holder of a debenture is entitled to punctual payment of interest, and of the principal when the debenture is publicly drawn for payment.

14. Debenture holders have, as their security for the payment of interest and principal and of any other claims under this statute—

(*a*) the bank and all its funds, and, above all, the whole mass of mortgage claims held by the bank;

(*b*) the general guarantee of (1) all the properties mortgagable to the ban (alle bepfandbrief-ungsfähigen Landgüter) by the law of 1808 whether mortgaged or not, within its area of operation; (2) all other landed properties (*e.g.*, peasant (bäuerliche †) section 23 (*a*)) actually under mortgage to the bank; (3) all urban properties which by entry in the land register (Grundbuch) are subject to the general guarantee.

15. The registered mortgages held by the bank are exclusively assigned as security for the debentures, and can in no wise be made answerable for the dues payable to any other creditors of the bank.

16. All debentures have equal privileges.

17. Debentures against a specified property shall no longer be issued.‡

18. The total amount lent upon a property shall never exceed two-thirds of its value as appraised and determined.

19. Should a mortgaged property be split up or be so badly managed as to deteriorate, or suffer loss of its stock, or the dilapidation of its buildings, or be cleared of its timber, or should the buildings not be properly insured, the bank may either require the immediate repayment of a corresponding part of its loan, or may, on three months' notice, call in the whole loan and may, without preliminary proceedings, enforce its claims by attachment or sale. The bank may in case its security appears for any of the above reasons to be endangered, proceed without notice to attachment and management of the property.

(Other paragraphs provide for calling in part or the whole of the loan in case the property is entered in an association, even for land improvements, which is burdened with charges or demands which may endanger recovery of the bank's claims; also that the mortgagor shall inform the bank of any sale of its stock to a tenant, and, if necessary, shall give security. In case of receiving no such notice the bank may proceed as in paragraph 1.)

20. The bank is entitled to inspect the registration books and land records relating to properties within its area of operations and to take extracts therefrom *gratis;* it is also entitled to demand simple or certified copies.

21. The mortgages must not be preceded in the registration books by any prior mortgage or other obligation which would lessen the interest of the bank in the property or in its proceeds.

The candidate for a loan must prove that prior mortgages have been redeemed, or must obtain the cession of such mortgages to the bank, or must arrange that the bank shall have priority over all other registered entries, before debentures can be issued.§

Persons and properties admissible to loans.

* * * * *

23. Loans may be granted on the following properties :—

(*a*) all properties within the area of operation, including royal domains and forests, bearing an estimated value of at least £75. Properties defined in section 14 *b.* (2), (*i.e.*, peasant properties) must be possessed in full ownership without incidental servitudes (*i.e.*, apparently, without owing any feudal dues or duties to over-lords);

(*b*) (certain urban properties with buildings of the value of at least £750);

(*c*) (certain other urban properties worth at least £75).

All proprietors of the class mentioned in section 14 *b.* (2) (peasant), who obtain credit from the bank, are subject without further or express declaration, to the conditions of the statute, and are charged with the guarantee mentioned in section 14.

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* It will be remembered that the statutes of these banks absolutely forbid the bank to lend except on first mortgages. Hence any sale, &c., of the property by any other creditors is subject to the bank's claim as first mortgagee. The present section merely provides, therefore, for the recoupment to the bank of its incidental charges and advances not forming part of the principal debt.

† The acceptance of peasant, *i.e.*, non-noble properties as mortgagable, is of comparatively recent introduction.

‡ This marks the great change in the land bank system. The bank was at first a mere intermediary between a creditor and a particular debtor; the debentures were issued against and actually specified particular properties and loans, and the unpaid creditor had his claim against such property. Subsequently the bank became a genuine credit bank, issuing debentures merely against the mass of its mortgages and other assets, and excluding any direct connection between a debenture holder and a particular debtor.

§ *I.e.*, before the loan can be granted, since the issue of debentures and the grant of a loan are simultaneous or co-related acts; the one is impossible without the other.

The officials of the bank.

31. The business of the bank shall be carried out under the general supervision of a Royal Commissioner as president of the bank and according to the resolutions and under the control of the general meeting as elected by the circle meetings, through—

(1) the general board;
(2) the valuation committee;
(3) the full committee (Plenar-Kollegium);*
(4) the audit committee.

* * * * *

33. All officials of the bank are indirect public officials. They must take oath on appointment.

* * * * *

37. A commissioner or president appointed by His Majesty shall be placed at the head of the bank; his special care shall be that the foundation principles of the system shall be strictly observed by all concerned, and that not the least infraction of duty towards the King and the constitution of the country shall be admitted.

He is also entitled to preside, when he thinks necessary, at all the bank's meetings and committees without exception, and to expect and demand detailed reports. This right especially belongs to him with reference to the general meeting and the general board. He is also especially entitled, whenever he thinks necessary, to institute examinations of the cash and audit of the accounts, and he must particularly see that proper regulations are issued and obeyed by all the departments of the bank.

38. The departmental authorities of the bank are public departments with the rights mentioned in the general law, section 114 ff, Part II, Chapter X.

All documents issued in their official capacity have the *status* of public documents. No suit lies (findet der Rechtsweg nicht statt) against resolutions issued in their official capacity.†

* * * * *

The Audit Committee.

89. This committee consists of three members and as many deputies who shall be appointed for three years by the ordinary general meeting.

90. Its duty is the annual final revision of the whole of the bank's accounts, including the audit of the bank's work for the year which is to be made before the ordinary general meeting. The committee meets once a year, as soon as the settlement of accounts for the past business year has been completed by the office. The accounts must be placed in complete condition for audit with all vouchers and notes.

* * * * *

92. The committee submits the results of its revision to the president by whom it is transferred to the general board.

* * * * *

The enforcing of the bank's orders.

107. Every proprietor of an estate belonging to the credit association is bound to submit to all such orders of the several departments of the bank as relate to the due maintenance and execution of the provisions of this statute, especially as regards orders of the general board to undertake enquiry into estates which have deteriorated, and the representation of circle deputies when they are prevented from making valuations of properties.

This rule is applicable also to the occupants of mortgaged estates and to tenants of the same especially to lessees under the circumstances mentioned in sections 164 and 165 (relating to the leasing of estates under attachment).

108. The authorities of the bank are entitled to enforce obedience to their orders by fines which they may themselves impose and which they may collect by coercive process without the intervention of a Court, or by such other coercive means including the attachment of estates, as may seem good to them.

All Courts are bound promptly and without objection to assist the bank in such cases.

109. Should these means not succeed in inducing the parties concerned to do their duty, the general board is entitled to demand repayment by them of their loans and for this purpose, should threats prove unavailing, to proceed in the last resort to the forcible sale of the mortgaged property. Such sale must be carried out by the Court having jurisdiction without previous enquiry.

110. Should the offender be dissatisfied with the action of the general board (sections 108 and 109) he can make a complaint to the general meeting the decision of which shall be final.

On complaint being made execution of the penalty shall be postponed unless such penalty be a mere fine.

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* The Plenar-Kollegium is similar in formation and duties to the 'select committee' of the Pomeranian bank.

† Presumably this privilege extends merely to resolutions affecting the internal relation of the bank with its members and borrowers; such resolutions could not affect third parties or the external relations of the bank.

*The Collection of outstanding Interest.**

149. On the expiry of the date fixed for payment of interest, a list of arrears shall be drawn up in full detail and a notice shall be sent direct to the debtor that coercive process will issue.

150. On the expiry of the time mentioned in the notice, the general board will proceed to coercion at first against the movable property of the debtor.

The debtor cannot in such raise the objection that the creditor must first seek his remedy against the estate.

Only such articles of the stock of the estate shall be sold as are not necessary (entbehrliche) for its working.

151. Should the proceeds of the distrained property not cover the arrears with the cost of distraint or should the general board consider it advisable with reference to the amount of arrears or other circumstances to abstain from distraint proceedings may be taken for the attachment or sale of the estate.

152. Should the board decide to attach the estate it must, as a rule, appoint for that duty the councillor in whose circle the estate is situated; in exceptional circumstances another councillor or a circle deputy may be appointed.

One of the bank's legal advisers (syndic) or in his absence a judge (Königlicher Richter) must always assist at such attachment.

* * * * *

168. (3) The Courts are bound, on the request of the general board, to proceed to sell an estate without previous enquiry.

STATUTE OF THE NEW WEST PRUSSIAN LANDSCHAFT.†

1. A credit institution entitled 'The New West Prussian Landschaft,' is hereby established for the proprietors of estates excluded from the 'West Prussian Landschaft Association' in the districts of Marienwerder and Danzig.

It shall be represented and managed by the general board of the West Prussian Landschaft, with the proviso that such relationship may be dissolved.

Loans.

2. The bank will grant mortgage loans to such of the above landholders as enter the association. Funds for such purpose will be found by the issue of debentures called 'New West Prussian Debentures'; these shall be made out to bearer and shall carry an annual interest of 4 or 4½ per cent.

3. For entry to the association and for the receipt of loans only such estates† are admissible as—
(*a*) do not belong to the West Prussian Landschaft Association;
(*b*) are held in full ownership;
(*c*) are worth, upon valuation by the bank, at least £225;
(*d*) and (*e*) (relate to peculiarities of German land tenure).

* * * * *

5. Loans may not exceed in amount half the estimated value of the property.

* * * * *

8. A borrower must undertake the following obligations—
(*a*) to pay, in two half-yearly instalments, an annuity of 4¾ or 5¼ per cent. according as the debentures (representing the loan) were issued at 4 or 4½ per cent.;
(*b*) to pay towards a working capital (section 27) 1 per cent. on the loan amount at the issue of the debentures;
(*c*) to repay the loan principal, in whole or in part, upon six months' notice in the cases mentioned in section 15 *infra*;
(*d*) in case of arrears to pay, as penal interest, 5 per cent. upon such arrears, for the quarter in which the payment fell due;
(*e*) especially to submit to the conditions of this statute.

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* The corresponding articles of the Old West Prussian Landschaft are as follows:—

66. When the due date for the payment of interest is passed, the cashier must draw up a list of arrears and place it before the board.

67. Arrears of interest which only amount to £30 or less shall be collected by immediate distraint of the debtor's movables.

For such distraint the bank authorities may either use their own bailiff, or may request the Court having jurisdiction to make the distraint, and the Court is bound to comply with such request.

68. Arrears of interest of more than £30 must (müssen) be collected by attachment of the property. But the board may, in the case of small arrears (*i.e.*, more than £30 but not very considerable), forego such attachment when they think proper.

Section 81 provides that if, at the auction of a property for arrears, the bids offered are insufficient, the bank with the consent of the general board and of the Royal Commissioner, may buy in the estate, but in such case, must re-sell it as soon as possible and at longest within three years.

† This is one of the New Landschaften (*See* Vol. I, pp. 56—58) and was founded in 1861 with the view of extending a more general land credit than that granted by the Old Landschaften, the operations of which were, in general, confined to 'noble' properties. It is a mere annex of the Old West Prussian Landschaft; such union however may be dissolved.

† Grundstücke = estates. It is peculiar to these German land banks that it is the character and status of the estate that regulate the capacity for loans, &c., not the status of the holder; or rather, the holder of an estate derives his right to enter an association and obtain a loan, from the status, noble or peasant, of his estate.

12. The annuity shall be alloted as follows:—

(*a*) 4 or, as the case may be, 4½ per cent. as interest upon the debentures;
(*b*) ½ per cent. to the accumulation of the insurance and sinking fund respectively [eines Sicherheits und resp. Amortisations-(Tilgungs-) Fonds];
(*c*) ¼ per cent. for the defrayal of the charges of administration.*

* * * * *

14. The bank shall, upon the occurrence of arrears, issue its demand for such arrears and for the penal interest due thereon, and shall subsequently proceed against the movables of the debtor, or to the attachment and sale of the land by the Courts having jurisdiction.

The debtor cannot demand that the bank shall in the first place proceed against the estate, nor can he object to the simultaneous carrying out of the attachment and sale of the estate; still less can he claim any delay.

At the auction of an estate the bank can, for the avoidance of any loss, itself buy it in without special authority from Government; in each case, however, it must re-sell the estate within three years.

15. The bank has the right of requiring the repayment of its loan at six months' notice—

(*a*) when the mortgaged estate shall have so decreased in value that it is no longer worth £225; partial repayments may be demanded in the case of other diminutions in value;
(*b*) when the proprietor fails to make his bounden payments to the bank punctually; this right ceases when the arrears and all costs are paid up;
(*c*) when the proprietor is unable to prove that he has regularly paid the public dues upon his estate;
(*d*) when the estate comes under attachment or public sale—(Subhastation);
(*e*) when the proprietor manages his estate so badly that, on the examination of two commissioners, a serious deterioration of the estate and a danger to the bank's security are evident, and the proprietor fails to remedy the defects found according to the orders of the directors and within an appointed time;
(*f*) when the borrower fails according to the condition of section 11 to insure his buildings, stock and stores against fire;
(*g*) when the borrower does not meet his obligations in the matter of his loan contract as mentioned in section 8;
(*h*) when he refuses to undertake the office of bank commissioner upon due election or nomination unless he has already served as such.

16. Properties under mortgage are subject to the inspection of the bank commissioners of the circle in so far as there may appear acts or omissions or other circumstances which may endanger the security of the loans or of the interest thereon.

* * * * *

The Funds of the Bank and their Management.

27. *Working Capital.*—The working capital (Betriebsfonds) † shall be accumulated from the 1 per cent. deduction made from all loans at the time of issue as provided in section 8-*b*. This capital is the property of the bank, and shall furnish funds for unavoidable outlays (not otherwise provided for). The select committee is especially charged with the employment of this fund.

28. *Insurance Fund.*—The insurance (guarantee) fund (Sicherheitsfonds) is accumulated—

(*a*) from 0·75 (drei viertel) per cent. which the borrowers pay in excess of the interest due to the debenture holders, and 0·25 per cent. as costs of administration, for seven years from the grant of the loan; ‡
(*b*) from the penal interest on arrears;
(*c*) from the proceeds of expired (unclaimed) interest coupons;
(*d*) from any extraordinary receipts;
(*e*) from interest on the fund itself.

29. The insurance (guarantee) fund is formed to cover any losses of capital or interest which are not covered by the share of the proprietor of the estate in question (which has caused the loss) in the sinking fund (Tilgungsfonds).

It is the own property of the association, and outgoing members are not entitled to any repayment of any portion thereof.

30. *Sinking Fund.*—The sinking funds (Tilgungsfonds) is accumulated from the proceeds of the annual 0·75 per cent. mentioned in section 28 (*a*), which the borrowers pay to such fund after the expiry of seven years from the grant of the loan,§ together with the interest accruing on the fund.

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* It will be noticed that these banks are managed most economically, and therefore with the least possible cost to the borrower. An annual charge of 0·25 per cent. on the loan, and a lump payment (8 (*b*)) of 1 per cent. at the issue of the loan, suffices for the whole cost of administration, and for the accumulation of a small cash capital for immediate and current expenses. It is the absence of a share capital with dividends, and the adoption of the mutual principle, together with the enforced and but slightly paid for services of the various members, that bring about the result.

† This is not a working capital in the sense of a capital by which the business of a bank is carried on or loans granted, but merely a fund from which cash expenses, salaries, &c., are provided.

‡ This point is not quite clear, for in sections 8 and 12 *supra* the contribution to the insurance and subsequently to the sinking fund, is mentioned as 0·5 per cent. with 0·25 per cent. for the costs of management; *total* 0·75 per cent.

§ *See* Vol. I, pp. 56–58 (New Landschaften). It is usual or common for a bank to demand that 0·5 per cent. or other amount be paid to the guarantee fund for the first few years after a loan is granted; after that period the contribution goes to the sinking fund, and amortizes the debt in a given period, usually about 50 years. But it is also necessary that the insurance fund or reserve shall first reach the amount of (say) 5 per cent. of the outstanding debenture debt.

This fund is the property of the owners of the mortgaged estates, and (so far as the contributions of such estates are concerned) is, *de jure* an appurtenance of the estates.

* * * * *

Management of the Bank.

40. (This section provides that the statute and working rules of the West Prussian Landschaft shall serve for the new bank except in so far as the present statute alters them.

1. Appendix No. II to the statute provides rules for the issue of series No. II of debentures. Rule 1 is similar to section 12 of the statute, but subsequent royal ordinances permit the issue of debentures at 3 and 3½ per cent.

2. The insurance (guarantee) fund is placed under the conditions of section 29 of the statute. It is composed from the following contributions:—

(*a*) 0·5 per cent. annually, as mentioned in rule 1, until the fund reaches 5 per cent. of the debentures issued to the respective borrowers*;
(*b*) half of such interest on debentures as has not been claimed within four years;
(*c*) penal interest on arrears;
(*d*) all extraordinary receipts.

3. The 0·5 per cent. above mentioned as part of the annuity shall be credited to the sinking fund and ledgered against each borrower, as soon as it is no longer required for the insurance fund.

* * * * *

5. The holder of debentures of series II has the right—

(*a*) to the punctual payment of his interest;
(*b*) to the payment of his principal in cash when publicly drawn.

Should the bank fail to satisfy his claims he is entitled to seek satisfaction by the ordinary legal methods against the bank—

(*a*) first of all from the insurance (guarantee) fund;
(*b*) next from those mortgages against which the bank has issued debentures;
(*c*) subsidiarily from the sinking fund with reference to the debentures of series II issued against particular estates.

So long as the insurance fund shall not have reached the amount of 5 per cent. of the pending debentures, the debenture holder has further the right to seek satisfaction—

(*d*) from the old insurance fund but without prejudice to the rights already acquired therein by holders of debentures of the first series.

The valuation rules of this association are particularly minute, and too lengthy for translation here, while their chief interest would be the secondary one of showing the very moderate amount of loan obtainable per acre, and the extreme care with which the bank safeguards its loans, by demanding the most scrupulously minute enquiries; the inability of such banks to reach the small peasant is fully accounted for by the necessity—gained from experience—for such rules.

STATUTE OF THE CENTRAL LANDSCHAFT (LAND BANK) FOR THE PRUSSIAN STATES.†

1. The undermentioned credit institutions (Landschaften) of Prussia (here follow the names of nine Landschaften) establish, under the conditions of the present statute, an association for improving the credit granted to proprietors, especially by means of a mutual issue of central debentures, to be negotiated in the general market.

Other Prussian Provincial Credit Institutions may be admitted to the association under the rules of the present statute and with the consent of the adherent institutions.

2. The association will take the name of the 'Central Landschaft (Land bank) for the Prussian States, and will be located in Berlin, with the rights of a corporate body.'

3. The business of the bank shall be managed by a central board which will represent the bank and will consist of one member from the highest administrative body of each of the adherent banks, who will be elected by such body as their representative.

The central board will meet, whenever necessary, and at least once in a year; it will frame its own business rules.

4. (The several provincial banks will arrange matters for the benefit of themselves and their clients, except in matters which concern the direct working of the central bank). The central board will regulate all details under a set of business regulations which will be framed in communication with the several boards of the affiliated banks.

The managing bodies of the several affiliated banks are bound to respond to the demands of the central board.

5. The Minister for provincial affairs is bound, as royal commissioner, to supervise (control) the execution of the present statute.

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* The insurance fund is apparently not a general fund held in lump, but a fund containing as many divisions as there are loans; each loan is separately ledgered and the contribution of 0·5 per cent. made by each borrower is then credited to him on his ledger page, together with his share of the other assets of the fund, and when the total of such credits reaches 5 per cent. of his debt, it is considered that he has sufficiently secured the bank against loss on his account, and the 0·5 per cent. is then diverted to its proper reservoir, viz., the sinking fund, by which his debt is gradually amortized.

† *See* p. 57 of Vol. I. The bank was established by the decree of 21st May 1873.

6 and 7. (Temporary arrangements for the commencement of work).

8. The central bank will issue 4 per cent. debentures to bearer, with the appellation of 'Landschaft central debentures'; they shall not be repayable on demand by the holder (unkündbar sind).

These central debentures are intended to provide funds for the mortgage loans granted by the provincial land banks on the properties within their respective areas and limits of business.

9. Properties must be valued prior to the issue of debentures (*i.e.*, before the grant of a loan thereon).

Such valuations to be made upon the valuation principles of the respective banks and to be carried out by their officers. But it is permissible to grant loans without such valuation upon a consideration of the net income as fixed for the purposes of the land-tax, viz., within 50 times the amount of such tax as finally assessed, and after deduction of all taxes, cesses and charges (Dienstbarkeit, servitudes, corvées, &c.) *

10. The proportion of the valuation amount which may be granted on loan shall follow entirely the rules of the respective banks.

11. Changes in the valuation principles and loan limits of the several affiliated banks require the consent of the board of the central bank in so far as loans are to be made by the issue of central debentures. But in no case shall the loans exceed the proportion of two-thirds of the estimated value.

12. The borrower must execute a mortgage to the provincial bank for the security of its claims and for the execution of the obligations mentioned in section 16 *infra:* he must also fully submit to the provisions of this statute, and must effect the necessary registration in the land register.

The issue of central debentures will follow, as a loan to the bank which has forwarded and assigned to the central bank, the documents necessary by the conditions of paragraph 1.

13. For every loan granted and registered as per section 12 an equivalent amount of central debentures shall be issued.

14. The loan amount shall be issued through the provincial bank, either in cash or in central debentures at their face value, according as the central board shall decide. In the latter case the central board is authorized to buy in (from the borrower) the debentures at a price previously agreed upon, or to sell the debentures itself on account of the borrower.

The central board shall also determine when to issue the loan in cash at the face value of the debentures, should such debentures be quoted at a premium. In such cases the premium shall be credited to the bank.

15. When the central debentures are below par the provincial bank authorities may, should they so decide and upon the request of the borrower, grant from their own funds the difference between the par and actual value of the debentures as an additional cash loan, bearing interest, &c., under the provisions of sections 16, 17, 28 and 29 *infra.*

The same faculty is granted to the central board in regard to the grant of similar advances from the funds of the central bank. In such cases the provincial bank must execute a bond to the central bank for the repayment of such advances according to sections 16, 27, 28 and 29 *infra.*

16. The annuity for the repayment of the loan shall be settled according to the provisions of the present statute, and the constitution of the respective affiliated banks.

In all cases at least 0·5 per cent. annually must be paid upon central debentures as sinking fund, or such higher rate as may be necessary according to the constitution of the respective provincial banks.

The provincial banks are entitled in special cases to agree upon higher and extraordinary rates of amortization.

In cases where cash supplements have been issued under section 15, the borrower must pay at least 0·5 per cent. in addition for the amortization of the special debt. (Higher rates may also be demanded for the same).

17. (Omitted: relates merely to advances upon pledge of valuable securities, and mortgages, &c.)

18. The debt-claims registered in favour of provincial banks under section 12 shall be exclusively assigned to the central bank for the security of holders of central debentures, and other creditors shall in no way have any charge upon them.

19. Central debentures shall be issued by consecutive numbers for sums of from £7–10–0 to £500 (in seven values), and the central board may sanction other values. They shall be signed for the central board by such member of the same as represents the bank on the request of which they were issued, and authenticated by the counsel (Syndic) of the central board.

(Various other minor provisions are also entered for the due and formal issue of the debentures: they do not seem to need translation.)

20. (The debentures to be provided with interest coupons for 10 years, payable half-yearly, and with a voucher (talon) for the issue, to the person presenting such voucher, of a new set of coupons on the expiry of the first 10 years. If any objection is raised by a third party to such new issue the holder of the voucher must execute to the bank an indemnity bond.)

21. (Debentures may be issued with a true translation in foreign languages, the values being expressed in German as well as in foreign currency.)

22. The holder of a debenture will be entitled to demand—

(1) the payment of the interest at due dates;

(2) the payment of his capital when the debenture is publicly announced for payment.

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* The references in this section to the laws bearing on the subject of the land tax are: (1) Section 1 of the law of 6th March 1868 (General collection (Gesetz Sammlung), p. 206); (2) Law of 21st May 1861 (General collection, 253); (3) Regulations of 12th December 1864 (General collection, 673 and 683); (4) Law of 8th February 1867 (General collection, 185).

In case default should be made he is entitled to proceed at law against the bank and to demand a judicial allotment of his dues—

(*a*) from the funds of the provincial bank on the request of which the debentures in question were issued and which has undertaken the specific obligation for them, in so far as such funds are not pledged for any older and well-founded claims of third parties ; or

(*b*) from the actual mortgages which were the foundation of the loans on which the central debentures were issued ; or

(*c*) from *pro ratâ* contributions made *ad hoc* from the proprietors of all estates on which central debentures have been issued ; the final security for the holders of central debentures is, as a general guarantee, the total assets of the sinking funds under accumulation by the central association for the various properties.

The holders of central debentures cannot demand (at pleasure) the repayment of their capital.

23. The payment of interest upon the coupons will take place on fixed dates, at the offices of the several affiliated banks and at such other places, whether at home or abroad, as may be settled by the central board.

Interest (unclaimed) lapses to the bank at the end of four years from the 31st December of the year in which the said interest fell due.

But the bank may pay the value of any coupons to such person as shall, before the expiry of the four years' limitation period, notify to the bank the loss of such coupons, and shall prove his property therein by production of the debenture or by other satisfactory means; such payment shall take place at the end of the four years if within such period the missing coupons are not forthcoming.

24. (Transfer, &c., of debentures follow the provisions of the general law relating to paper payable to bearer.)

25. (Deals with the issue of fresh debentures in place of spoilt ones.)

26. The amortization of debenture debts contracted according to the provisions of this statute, is effected at the bank through which the loan was issued and according to the statute governing such bank, regard being had to the rules in section 16, &c., *supra*.

27. Should the difference between the market and par value of central debentures issued for a loan, be made up by the bank by means of a cash supplement (section 15) for which the mortgaged property is charged (section 12), the whole sinking fund contributions payable by section 16 *supra* for such property, shall be credited at interest to a special adjustment account, to be maintained by the respective banks, until such cash supplement with interest shall have been fully paid up.

28. The sinking fund contributions payable by sections 16, 26 and 27 shall be used and applied according to the provisions of section 35 *infra*.

As soon as at least 10 per cent. of the amount due upon the mortgaged estate shall have been accumulated to credit of the sinking fund, the borrower may demand that an equivalent amount of the debt shall be cancelled, provided that any cash supplement issued under section 15 shall have been repaid.

29. Every owner of a mortgaged estate is entitled to make, in accordance with the statutory rules of the bank which granted the loan, such extra payments as he pleases towards or in completion of the amortization of his loan.

He is also entitled to settle his debt, so far as it is not covered by the sinking fund, by payments in cash, or by the tender of central debentures at their face value with all unpaid interest coupons thereto belonging.

30. The share of a debtor in the sinking fund passes with the property of the estate under mortgage as an inalienable appurtenance thereto to any new owner. It can never be separated from the estate, or otherwise disposed of by the estate owner. Nor can such share be made liable for the claims of a third person, nor can it be made the subject of attachment on a decree of Court, or assigned to any third person. This section shall be read subject to the provisions of section 22, paragraph 3.

31. A borrower who, by the rules of his provincial bank, is entitled to a proportionate cancelment of so much of his debt as he has paid up, or to a new loan (for a similar amount), the priority of the balance of the original loan being, however, maintained, is similarly entitled in the matter of central bank loans.

32. Cancelment or other such arrangement in the matter of a loan, can only be effected on the cancelment (Kassirung) of a corresponding value in central debentures.

33. The central board shall determine whether and under what circumstances debentures may be called in for cash payment.

Such recall of debentures must be effected under the provisions of the State decree of 20th January 1870 and its appendix (General collection, page 70).

34. Debentures withdrawn from circulation shall be cancelled together with their interest coupons and voucher (Talon = voucher for the issue of fresh coupons) in the presence of a member of the central board, &c., and struck off the debenture register.

35. The funds of the central bank shall consist of the following:—

(1) Any premium (Kursgewinn) and debentures issued (section 14);

(2) Time-barred interest (section 23) ;

(3) The value of any debentures, duly recalled for payment but unclaimed for 30 years, as per State decree of 20th January 1870 (G. C. P., 70);

(4) Deposits, advances or loans made to the central bank by the affiliated banks or otherwise;

(5) Any profits made by the bank.

The central board must, in the interests of the bank and of real credit, take every care that the bank funds and the sinking fund shall be suitably utilized and invested at interest, either as provided

in section 15 (2) and 17 (5), or by purchase of central debentures or debentures of any affiliated bank, or in paper of or guaranteed by the State.

36. A half-yearly settlement of accounts as between the central bank and each of the affiliated banks shall be effected by the central board.

37. A central commission to which the general meeting or the select committee,—if so empowered by the general meeting—, of each affiliated bank must elect a member, will accept such accounts (ertheilt die Decharge) after due audit and verification.

The central board will issue a report on the above together with a clear extract from the accounts (for incorporation) with the annual administration report of each affiliated bank.

38. The result of the settlement of accounts, together with an annual certified statement must be sent to the royal commissioner (in proof), that the total value of debentures in circulation does not exceed the total value of outstanding mortgages on which debentures have been issued under section 12.

39. All the provisions and dispositions of the several affiliated banks remain in full force as regards loans in central debentures and estates on the mortgage of which central debentures have issued, so far as they are compatible with the present statute. Any doubtful matters will be decided by the central board, proceedings in the Courts being excluded.

40. Similarly the affiliated banks shall be entitled to issue, without alteration, their own debentures according to their own statutes, and borrowers shall be at liberty to choose whether debentures of the bank within the business limits of which their estates are situated, or whether central debentures, shall be issued for their loans.

41. (Relates to the issue of central bank debentures in place of provincial bank paper.)

42. Upon the complete amortization of a loan upon which central debentures have been issued, and of any supplement (section 15) paid to the borrower, the estate under mortgage shall be freed from all obligations towards the central bank.

43. Should the interest of real credit appear to require it, the business area of the central bank may, with the consent of the affiliated banks, and, so far as may be necessary, that of the State, be extended to such degree as may seem needful.

44. Every affiliated bank may withdraw from the central association upon a resolution to that effect by the bodies entitled thereto by the constitution of the bank; such withdrawal is, however, only permissible after the withdrawing bank has fulfilled all its engagements with the central bank, and has produced for cancelment all the central debentures issued on its account.

Every affiliated bank can, in preparation for such withdrawal, require that the issue of central debentures on account of proprietors within the business area of such affiliated bank shall cease.

Similarly the several banks affiliated to the central bank can require, by a unanimous vote, that the further issue of central debentures on behalf of a particular bank shall cease, proper regard being had to all well-founded rights based on previously issued debentures.

The central bank shall be dissolved should all the affiliated banks withdraw therefrom.

45. Alterations of the present statute, in so far as such can be effected without injury to the rights of the holders of debentures already issued, require resolutions of the general meetings, or of the select committees of the several affiliated banks when so empowered by their general meetings; they also need royal confirmation.

46. (Relates to the newspapers in which the bank must publish its notifications.)

LAW RELATING TO SOCIETIES FOR THE GRANT OF LAND CREDIT (FRANCE), 28TH FEBRUARY 1852.*

CHAPTER I.—LAND CREDIT SOCIETIES (LAND BANKS). †

1. Land banks, which are founded with the object of enabling proprietors who borrow on mortgage to repay the mortgage amount by means of long-term annuities, may be authorized by decree of the President of the republic after consultation with the Council of State. On such authorization they shall become possessed of the rights and be bound by the rules of the present law. ‡

2. The above authorization may be granted either to societies of borrowers or to societies of lenders. §

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* This is the law which governs the great French Land Bank called the 'Crédit Foncier': *See* pp. 69–74 and Chapter IV of Part I, Vol. I. It was largely based upon a study of the Prussian Landschaften and other German land banks.

† The words used in the law are always 'Society' or 'Society for land credit': in translation the word 'bank' or 'land bank' will be used for the sake of convenience.

‡ This authorization includes an approval of the articles of a bank as shown by section 48 *infra*.

§ This is the prime distinction between the two great classes of credit banks or societies: in ordinary commercial English they would be called co-operative and joint-stock banks respectively: a bank of the former class is a congeries of elected or selected members who unite their subscriptions, credit, and sometimes their whole property, to attract outside capital which they lend solely amongst themselves; the cost of credit and profits are reduced to a minimum, since it is through the grant of mutual credit that the profit of members is sought and not through the earning of dividends for the profit of investing at the cost of borrowing members; the interests of all members is identical, viz., cheap, safeguarded credit.

A bank of the latter class is merely a mass of capital in small shares, transferable at pleasure to any holder who purchases them, and the primary object is the obtaining of large profits through a big business at such rates as are most profitable; the interests of the shareholders and of the borrowers, who are not necessarily shareholders, are in fact opposed, the shareholders requiring high dividends, the borrowers cheap credit. The Prussian Landschaften are illustrations of the former class, the Crédit Foncier of the latter.

3. The operations of the banks shall be limited to the area fixed by the decree of authorization.

4. Land banks have the right of issuing debentures.

5. In order to assist the early operations of the banks, the State and departments (districts) may invest in a certain quantity of such debentures. The budget shall annually settle the maximum to be invested by the Treasury in this manner; such amount shall be divided amongst the banks as determined by their respective decrees of authorization. The same decree shall determine what share shall be received by each bank of the sum of £400,000 set apart for the establishment of land banks.

Chapter II.—Loans made by Land Banks.

6. Land banks may only lend on first mortgage (with a certain exception of no general importance). Loans by which all prior creditors are paid off both as to capital and interest are considered as first mortgages. In case of such loans the bank shall retain in its own hands so much as will effect the above payments.

7. No loan shall, in any case, exceed one-half of the value of a property; the articles of each bank shall determine the minimum loan to be granted.

8. (Relates to the 'purge' or postponement in favour of the bank of certain charges or claims. This was made optional by the law of 10th June 1853.)

If any claim is registered during the period allowed, the provisional loan deed will be held null and void.

9. [Contains precautions in case of certain claims under the French law (hypothèques légales).]

10. Borrowers shall repay their debts by annuity, but shall always possess the right of repayment in advance either in full or in part.

11. The annuity shall of necessity comprise—

(1) the interest agreed upon which shall not exceed 5 per cent.;
(2) the sum allotted as sinking fund;
(3) (a contribution towards) the cost of management together with such charges as are fixed by the articles of the bank.

12. In case of non-payment of the annuities the bank may, in addition to its rights as creditor under the general law, have recourse to the methods of recovery contained in Chapter IV *infra*.

Chapter III.—Debentures issued by Land Banks.

13. The (land mortgage) debentures or bonds of land banks shall be to order (nominatives) or to bearer. Debentures to order are transferable by mere endorsement, without other guarantee than that provided by section 1693 of the Code Napoleon. *

14. The aggregate value of the debentures issued shall not exceed that of the loans granted. (They must be countersigned by the governor of the bank; law of 6th July 1854) and shall be registered at a fixed rate of 10 centimes (1*d.*) each.

15. No debenture shall be issued of less value than £4.

16. The debentures shall bear interest. In the course of each year debentures shall be redeemed to the value of the sums paid in towards the sinking fund.

17. The holders of debentures can recover their principal and interest only by proceedings against the bank itself. †

18. No attachment is valid (il n'est admis aucune opposition) against the payment of either the capital or interest (of the debentures) save only in case of the loss of a debenture. ‡

Chapter IV.—Privileges granted to Land Banks for the Safety and Recovery of their Loans.

A.

19. § For the postponement of known claims at law (hypothèques légales) a notice containing an extract from the mortgage deed || executed in favour of the bank shall be served—

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* This is as follows:—"The vendor of a debt or other incorporeal right is held to guarantee that such right exists at the time of transfer even though the contract provides no guarantee."

† That is, they have no right of action against any of the mortgagors of the society even though the debentures are issued against and secured by such mortgages; the society is the sole direct debtor of the debenture-holders. Nor can they proceed against other debtors of the bank by the means open to creditors of individuals under the general law, *e.g.*, by attachment of dues owed to the bank by third parties; they can proceed only against the bank itself.

‡ This provision, copied from the Prussian Landschaften, is intended to assist the debentures in finding a good market; a security which a creditor or other claimant cannot touch, and the proceeds of which must necessarily reach the holder, is a desirable investment. Moreover the bank is saved from frequent legal attachments, notices, &c. There is a similar provision in French law in the matter of public paper. The provision modifies the general law (section 1242 of the Civil Code).

§ Sections 19 to 25 are taken from the law of 10th June 1853, which cancelled those sections in the law of 1852. The 'purge' was made optional by section 2 of the same law of 1853, and in any case, only extends to 'hypothèques légales,' *i.e.*, the charges or claims created by the law, (*a*) in favour of a married woman over the goods of her husband; (*b*) in favour of minors and incapacitated persons, over the goods of their guardians; (*c*) in favour of the State and other public bodies over the goods of their tax-collectors and cashiers. These charges are valid without registration, but husbands and guardians are bound to register such charges (section 2136, &c., of the Civil Code). But section 24 of the present law provides against unknown, that is, unregistered charges.

The 'purge' of the present law merely operates to postpone the claims to that of the bank: it is not an absolute purge, such as that of the Jhansi Encumbered Estates Act. (*See* pp. 108–9 and 308 of Vol. I. There appears to be an error on page 308, since section 2136 of the Civil Code requires husbands and guardians to register charges at law.)

|| The bank and the mortgagor execute and register a provisional mortgage deed, and after the completion of the 'purge' and any other conditions or formalities, the final deed is executed and registered.

(*a*) upon the woman and her husband ;
(*b*) upon the guardian or substituted guardian of the minor or incapable ;
(*c*) upon the minor freed (from wardship) and his trustee ;
(*d*) upon all unregistered creditors possessed of a claim at law.

20. (Particulars of the mortgage contract are to be entered in the notice.)
It shall moreover contain a notice that if desired that such claim shall maintain its priority as against the bank, it must be registered within 15 days from the date of the notice, with an allowance for distance.

21 to 23. (Precautions to be taken in serving the notice where the woman is the wife of the person obtaining the loan, or when the borrower is the guardian of a minor, &c.)

24. For the postponement of unknown claims at law, an extract from the mortgage deed must be sent to the Government Pleader of the Court of the taluk (arrondissement) in which the borrower is domiciled, and of that in which the property is situated.
The extract shall also be inserted, with a note that the above notices have been sent, in one of the newspapers appointed for publishing the judicial notices of the taluk in which the property is situated.
Registration (of any unknown charges) must be made within 40 days of the above advertisement.

25. The postponement takes effect in default of any such registration within the periods fixed by the above sections.
Such postponement gives to a land bank priority over claims at law.
But such postponement shall not benefit third parties, who remain subject to the formalities prescribed by sections 2193, 2194 and 2195 of the Code Napoleon.*

B.—RIGHTS AND MODES OF EXECUTION BY A BANK AGAINST BORROWERS FROM IT.

26. The Courts shall not grant any postponement of the payment of annuities.†

27. The payment of annuities shall not be stayed by any attachment, ‡ (ne peut être arrêté par aucune opposition).

28. Annuities not paid at due date bear interest *de jure*.

The bank may, moreover, proceed to the attachment and sale of the property mortgaged in the manner and under the conditions prescribed by the following sections.

29. *Attachment.*—When a debtor is in arrears a bank may, by means of an order § which shall, on its request, be made by the Court of first instance (having jurisdiction), and within 15 days of service of such order, take possession of the mortgaged property at the risk and cost of the defaulter.

30. During such attachment the bank shall collect, notwithstanding any (other) attachment or distraint, the whole of the proceeds or produce (of the property), and, by (special) privilege, shall apply the same to the clearance of all annuities and costs due up to date.
This privilege takes rank immediately after those enjoyed on account of the expenses of maintaining the property, the wages of labour and of sowing the crops, and the rights of the Treasury for the collection of the taxes.‖

31. In case of dispute regarding the balance sheet of an attachment, the matter shall be decided by the Court summarily.¶

32. *Eviction and sale.*—Whenever an annuity is in arrears, and whenever by reason of the deterioration of an estate or for any other cause mentioned in the articles, the repayment of the principal (of a loan) may be demanded, the sale of the immovable property (under mortgage) may be proceeded with.
If objection is raised thereto, the matter shall be decided, as a summary suit, by the Court in the jurisdiction of which the property is situated. The judgment in such suit shall not be subject to appeal.

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* *See* pp. 108–9 and 308 of Vol. I.

† Since the interest on debentures has to be paid by the bank to the very day, it is equally necessary that the bank should be paid by its debtors with similar punctuality. Hence not even the Courts can grant a debtor any privilege in the way of postponement of dues or payment of the annuities by instalments, &c. This provision modifies the general law (section 1244, Civil Code) by which the judges can grant moderate delays.

‡ This is a large privilege, by which the bank obtains a certain precedence for its dues when once established by the contract deed. No creditor or claimant, not even a decree-holder, whether of the bank or of the borrower, can attach an annuity on its way to the bank.

§ The order is not a decree in a suit, but merely an order of an executive nature, which the debtor can object to not by appeal but by a suit brought against the bank for cancellation of the order.

‖ The "privilege" is "a right of preference over other creditors, even mortgagees (hypothecaires), enjoyed by a "particular creditor in virtue of the nature of his claim. Privileged creditors take rank among themselves according to "the particular class of their claim." (Sections 2095, 2096 of the Civil Code.) These 'privileges' extend to both movables and immovables, but the privilege of the text is over movables only, since it is a right on the proceeds of the estate and not over the estate itself. The case, therefore, is one of those mentioned in section 2102 of the Civil Code which are as follows :—(1) The preferential right of the landlord for his rent, subject however to a prior right over the crops for the cost of sowing and reaping the crops, and over the implements for the cost of purchasing such implements ; (2) the preferential right of a pawnee over the pledge held by him (it will be noted that the landlord's right precedes the pawnee's) ; (3) the preferential right on account of money expended in preserving the property ; (4) the preferential right for the price of goods bought but not paid for, if still in the possession of the debtor. There are three subsequent classes of 'privilege' under this section, but the privilege of the text takes rank next after (4) and before the next three.

¶ The summary procedure of the French Civil Procedure Code is really summary; *see* sections 404 to 413 of the Code: section 405 says "summary cases shall be disposed of at first hearing without other formalities," the procedure is brief and inexpensive. The procedure in the commercial Courts is of the summary nature.

33. In proceeding to the sale of an immovable, a land bank shall issue to the defaulter a demand notice (commandement) in the form prescribed by section 673 of the Civil Procedure Code. This demand notice shall be registered in the office of the registration area in which the property is situated.

In default of payment within 15 days, three advertisements, with at least 10-day intervals, shall, within the six weeks following the above registrations, be made in certain newspapers as provided in section 42 of the Code of Commerce, and two notices shall, at 15-day intervals, be affixed (*a*) in the court room (auditoire) of the court where the sale is to take place, (*b*) at the door of the office of the mayoralty in which the property is situated, and (*c*) on the property when it is a building.

The first affixture of the notice is communicated within eight days to the defaulter and to any registered creditors at their place of domicile with a summons to take service of the notice of the conditions of sale.

Fifteen days after the execution of these formalities, the auction sale may be proceeded with in the presence of the defaulter or, after he has been duly notified, * before the court within whose jurisdiction the property or the larger part thereof is situated.

The court may, if moved by the bank before the appearance of the first advertisement, order that the sale shall take place either before another court or at the office of a notary of the canton or taluk (arrondissement) in which the property is situated. This order is not open to appeal, nor can any objection be raised (to the proposal of the society) save within three days *plus* an allowance for distance after due notice given to the defaulter.

34. From the date of registration of the demand notice (section 33), the defaulter shall not be able to alienate the mortgaged property to the prejudice of the bank, nor burden it with any real charges.

35. The demand notice, the copies of the newspaper containing the advertisements, the memorandum attesting the affixture of the notices, the summons to take service of the list of conditions of sale, and to be present at such sale, shall be annexed to the sale proceedings (proces-verbal).

36. Any objections or pleadings must be entered on the memorandum of conditions at least eight days before that fixed for the sale. Such notice of objection must appoint a solicitor.

The court shall take cognizance of any objection upon due exchange of notices between solicitors.† It will decide the matter on a summary enquiry, but such enquiry shall not postpone the sale.

37. If, at the registration of the demand notice (section 33), there shall be in actual existence a prior attachment made on demand of another creditor, the land bank may, after simple notice to the solicitor of such creditor, and provided that the memorandum of sale conditions has not been already deposited (in court by the other creditor), proceed to sale in the manner provided by the preceding articles.

If the memorandum of the sale conditions has been already deposited prior to the registration by the bank of its demand notice (section 33), the bank shall not enjoy the privilege of being substituted for (of preceding) the attaching creditor.

No postponement of the sale shall be allowed if the bank objects thereto.

In case of any negligence on the part of the bank, the attaching creditor may resume his right of proceeding (to sale).

38. Within eight days of the sale the purchaser is bound to pay to the bank provisionally the amount of the annuity due.‡

After the period allowed for further bidding § has elapsed, the balance of the purchase money shall be paid over to the bank up to the full amount due to it, notwithstanding any attachments, objections or registered claims by creditors of the defaulter; provided however that such creditors shall have the right to sue for recovery of any excess (en répétition) should the bank have been unduly paid to their prejudice.‖

39. If the property has been sold by lots, or if there are several purchasers without joint interest, each purchaser is only bound as regards the bank up to the amount of his bid.

40. The procedure for the 'surenchère' shall be that prescribed by section 708 *et seq.* of the Civil Procedure Code.

When the required sale has been before a notary, the surenchère must be made at the court of the taluk at which the sale was decreed.

41. When a bidder has failed in his engagement so that a re-sale is necessary (lorsqu'il y a lieu à la folle enchère), sections 33 to 37 of the present law shall be followed.¶

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* Any registered creditors other than the bank should also be notified; otherwise their claims will remain as encumbrances; if present or duly notified their claims will determine as regards the property and will be valid only against the sale price.

† This appears to the *meaning* of the phrase "le tribunal est saisi de la contestation par acte d'avoué à avoué."

‡ This is large privilege modifying the general French law, which provides numerous delays and precautions before a creditor can touch the proceeds of the court sale which he has brought about. In the 'Statement of objects and reasons' of the present law the following is found:—"Ought the bank to be subjected to the incalculable delays entailed by the ordinary procedure before touching its money? Such delays would be disastrous to a bank to which the power of punctually fulfilling its engagements is all important."

§ Surenchère: The procedure for the forced sale of landed property under the French Code of Civil Procedure (sections 673–748) is very curious and lengthy; numerous precautions are taken to prevent any hurried sale to the prejudice of the owner or of other creditors. One of the provisions (section 708) provides that after the auction before the court has been duly and solemnly conducted "any person may, within eight days subsequent to the knocking down "of the property, make through the agency of a solicitor a higher bid (surenchère), provided that such bid shall exceed "the auction price by at least one-sixth." The bid shall be communicated to the court, may not be withdrawn, and shall be followed by a fresh auction with the further bid as the upset price; should the further bidder fail to make good his bid, he is liable in his body for the difference.

‖ Section 38 is now applicable to all sales of property under mortgage to the bank (section 7 of the law of 10th June 1853).

¶ It seems that the procedure in such cases by the general law (section 733 *et seq.*, Civil Procedure Code) is speedier and less costly than a repetition of the procedure under sections 33 to 37 of the present law, and is usually followed by the bank.

42. All rights granted in the present chapter may be exercised against third persons in possession of the property after due service of the demand notice (section 33) on the defaulter.

Proceedings begun against a defaulter are valid as continued against him until any third parties to whom the defaulter may have alienated the property shall have given notice to the bank of such alienation. In such case proceedings shall continue against such third parties.

Chapter V.—General.

43. (Treats of the supervision of land banks.*)

44. Banks are forbidden to undertake any business other than that prescribed by the present law.

45. Banks may deposit their disposable funds in the Treasury on conditions to be laid down by Government.

46. The funds of incapacitated persons and of communes may be invested in land bank debentures. So also may be invested disposable funds belonging to public institutions, or institutions of public usefulness, in all cases in which such institutions are entitled to invest their funds in Government paper.

47. The registration of mortgages on behalf of land banks is exempt throughout the whole period of such loans, from the decennial renewal required by section 2154 of the Civil Code.

48. The articles of a bank to be approved under section 1 *supra* must particularly mention—

(1) the mode of valuing properties;
(2) the nature of properties not admissible on mortgage, and the minimum loan which may be made on each class of (admissible) property;
(3) the maximum loan which may be granted to a single borrower;
(4) the tables for the calculation of annuities;
(5) the method and conditions for payments in advance;
(6) the interval between the payments made by borrowers and the payment of interest by the bank;
(7) the mode of issuing, recalling and repaying debentures whether with or without premia (bonuses) and the method to be adopted for cancelling redeemed debentures;
(8) the building up of a guaranteed or reserve fund;
(9) the conditions which shall lead to dissolution, and the methods and conditions of liquidation;
(10) the security and other guarantees to be demanded from the managers and other employés, as also the mode of their appointment.

49. (Relates to the framing of a set of rules for the supervision, &c., of the bank; this was cancelled by the law of July 1854.)

ARTICLES OF THE 'CRÉDIT FONCIER OF FRANCE.' †

Chapter I.—General.

1. The bank takes the name of the 'Crédit Foncier de France.'

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* This section placed land banks under the supervision of the Home Minister and of the Ministers of Agriculture and Commerce and of Finance. Inspectors were also provided, under section 49, for carrying out the details of such supervision. This was found cumbrous; the 'Crédit Foncier' had moreover assumed such proportions as to be almost a national institution and to require different treatment. Hence the law of 26th July 1854 which is substituted for sections 43 and 49 of the present law; its chief sections are as follows:—

1. The management of the 'Crédit Foncier of France' is exercised by a governor.

The governor appoints and dismisses the staff, presides over the council of administration and the general meeting, and countersigns the debentures: no resolution is valid if not approved and signed by him.

2. Two sub-governors perform such duties as are delegated to them by the governor, and take his place in case of absence or sickness.

3. The governor and sub-governors are appointed by the Emperor.

4. Before taking office the governor must show that he is possessed of 200 shares in the 'Crédit Foncier' and each sub-governor of 100.

5. The governor shall receive from the bank an annual salary of £1,600: the two sub-governors (each) receive £800.

6. Three of the members of the council of administration (board of directors) shall be taken from among the collectors-general of the finances.

7. (Abolishes certain restrictions as to the duration of annuities, that is, of loans.)

8. The bank is authorized, in addition to loans repayable by annuity, to grant short-term mortgage loans, repayable in lump, from the capital arising from shares and profits.

† *See* Vol. I, pp. 69 to 74, and Chapter IV *passim*.

The law translated above was passed on the 28th February 1852; by the 28th March of the same year a land bank (Crédit Foncier de Paris) was founded and approved by the decree of that date; this bank was to make long-term loans upon the issue of long-term debentures, and was granted a monopoly of operations *under the special law* for 25 years; its articles were, under section 1 of the law, subject to the approval of Government. On the 18th November 1852 this land bank agreed with Government to extend its operations, and the decree of the 10th December 1852 gave it the name of the 'Crédit Foncier de France,' extended its operations and monopoly under the Act to the whole of France, permitted a large increase of capital, and granted a subvention payable by instalments.

Subsequently the bank was required or authorized—

(1) by the law of 28th May 1858 to grant loans for drainage (rural) in place of the State;
(2) by the decrees of 11th January 1860 and 17th January 1863 to grant loans (mortgages) in Algeria to landholders, districts and communes, and associations;
(3) by a law of 26th May 1860 to discount the paper of the 'Sous-Comptoir des entrepreneurs.'
(4) by a law of 6th July 1860 to lend with or without mortgage to departments (districts), communes, and associations and to issue debentures against such loans, and by a law of 26th February 1862 this was extended to loans to hospitals and other public institutions (*see infra*).

Only extracts will be given from these articles, which were authorized by Government in conformity with sections 1 and 48 of the law.

Its objects are as follows:—

(1) To make to the owners of immovable property mortgage loans either over a long term by annuities or over a short term by annuities or in lump;

(2) To issue and circulate land mortgage debentures (obligations foncières or lettres de gage) to an amount not exceeding that of the sums due to the bank by its borrowers.

It may, with the sanction of Government, make use of any other system with the object of facilitating loans on immovable property, of improving the soil, of developing agriculture, and of extinguishing the (existing) debt on immovable property (la dette foncière).*

The bank may treat with French or foreign assurance companies with the view of facilitating the liberation of borrowers (from debts to such companies).

In no case, whatever be the origin or nature of the funds available, shall the bank do any business, whether in the form of purchases or repurchases, advances or renewals on paper other than land mortgage or communal † debentures, or on paper accepted by the bank of France as security for advances.

The bank is prohibited from buying or making advances upon its own shares.

2. The bank may receive deposits at interest or without; the total of such deposits shall not exceed £4,000,000.

Deposits shall be invested as follows:—

(1) One-fourth at least in account current with the Treasury at such rate of interest as shall be fixed by the Finance Minister; a larger proportion may be similarly invested with his consent. Securities to the above value may be deposited instead of cash, if accepted by the minister.

(2) The balance in Government paper or Treasury bonds, or in advances for terms not exceeding 90 days on the security of debentures issued by the Crédit Foncier or of securities as accepted by the Bank of France for advances, or, finally in bills of at most 90 days, bearing at least two good signatures and made out to the order of the bank.

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Chapter II.—Capital and Shares.

4 to 17. (The capital is fixed at present at £6,820,000 in 341,000 shares of £20 each, but may be increased to £8,000,000, when one-fourth at least shall be invested in Government paper; the capital shall be maintained at a sum equal to at least one-twentieth of the total debenture issue. The special function of the capital is to secure the business engagements of the bank and especially its debenture issue: it is a guarantee fund rather than a working capital. Shares are to bearer or personal, the latter being only transferable by a transfer in the bank's registers based upon a written document. The liability of shareholders is strictly limited to the amount of the shares held by them.)

Chapter III.—Administration.

18 to 22. (Describe the powers and duties of the governor and sub-governors. The shares necessarily held by them (200 and 100 respectively) are inalienable so long as they hold office, and are specially charged as security for their good conduct.)

23 to 35. [Deal with the council of administration (board of directors), which has from 20 to 23 members exclusive of the governor, sub-governors, and supervisors (censeurs); the ordinary members are appointed by the general meeting: three must be high finance officers (Trésoriers payeurs généraux des finances)].

28. Every director must, within eight days of his appointment, deposit in the office of the bank 100 shares, which shall be inalienable so long as he holds office.

29. The duties of directors are gratuitous; they are allowed sitting fees (jetons de présence), the amount of which shall be settled by the general meeting.

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36. *Supervisors* (censeurs, auditors).—The supervisors are three in number appointed by the general meeting: they hold office for three years, retire at the rate of one *per annum*, but are re-eligible. Articles 27, 28, and 29 apply to supervisors.

37. The duty of the supervisors is to watch over the strict execution of the articles. They attend the meetings of the board of directors, assist with their opinion (but not with their vote). They supervise the preparation and issue of debentures, examine the balance sheet and annual accounts, and report on these matters to the general meeting when necessary. The books, accounts, and all documents must always be presented for their examination when so required: they may at any time verify the cash balance and bill case; and they may, when all three agree to that effect, require the convocation of an extraordinary general meeting.

38. *General Meeting.*—(Represents the mass of shareholders, but consists only of the 200 largest holders. Proxies can only be given to shareholders. Forty qualified members form a quorum if they hold one-tenth of the total share issue: failing such conditions, a second meeting shall be called, which shall have full powers whatever the number of members present or of shares held. The other provisions are of an ordinary nature.)

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* *See* the preceding note for the development of the bank's operations.

† That is, debentures issued by the bank against loans to communes.

Chapter IV.—Loans.

51. Agreeably to article 1 the bank will grant mortgage loans of two classes, viz.:—

(1) Long-term loans repayable by annuities so calculated as to pay off the debt in a period of 10 years at the least and 75 years at most, whether in France or in Algeria.

(2) Short-term loans, repayable in lump or by instalments.

Loans may be made either in cash or in land mortgage debentures.

52. The bank will only lend to owners of immovable property on first mortgage, save only in such cases as are contemplated by the law and these articles. (Repeats the conditions of the law, section 6.)

53. When the bank deems it necessary to undertake the formalities of the 'purge,' it shall proceed in conformity with section 1 of the law of 10th June 1853. *

54. The bank shall not grant loans (1) on theatres; (2) on mines and quarries; (3) on undivided property,† unless the mortgage extends to the whole of such property and has the consent of all the co-sharers; (4) on property in which possession and ownership (l'usufruit et la nue propriété) are not united, unless all those interested join in agreeing to the mortgage.

55. The bank will only accept mortgages on properties which yield a certain and durable income. ‡

56. The amount of a loan shall not exceed that of one-half of the value of the mortgaged property.§

It shall not exceed one-third of such value in the case of vineyards,‖ woods and other properties of which the income depends upon plantations. Factory buildings shall only be estimated at their intrinsic value irrespective of their value as attached to the enterprise.

57. In no case shall the annuity to the payment of which the borrower binds himself exceed the total income of the property mortgaged.¶

58. The rate of interest on loans shall be fixed by the board of directors, but shall not exceed by more than 0·60 per cent. the actual rate (prix de revient) payable by the bank on debentures in issue at the time the loan is granted.**

59. The annuities shall be paid in cash, and shall include (1) the interest, (2) the sinking fund contribution as determined by the rate of interest in combination with the duration of the loan.††

60. Annuities are paid by half-yearly instalments at the dates fixed by the board of directors (now 30th April and 30th October).

At the time of granting the loan the bank will retain such amount as will cover the interest, &c., due up to the end of the first half-yearly period.

61. (Interest at 5 per cent. is payable on all arrears whether of annuities or costs of any sort.)

62. Moreover, default in the payment of a half year's dues renders the defaulter liable to a demand for the repayment of his whole debt in full one month after accrual of the arrear.

63. Borrowers are entitled to repay their debts in advance, whether in whole or in part.

Repayments in advance may be made at the choice of the debtor, either in cash or in land mortgage debentures of the series mentioned in the loan deed. When repaid in debentures, such debentures shall be received at par, whatever may be their market value.

A borrower repaying in advance must pay compensation (*indemnité*) to the bank, which shall not exceed 3 per cent. of the sum so repaid. ‡‡

Sums repaid in cash in advance shall be expended in redeeming or purchasing land mortgage debentures, or in granting new loans.

64. A borrower is bound to notify to the bank, within one month, any alienation, whole or partial, which he may have made (of the property mortgaged). In default of such notification in due time, the bank may demand full repayment of his loan together with compensation as mentioned in section 63.

65. A borrower must also notify, within the period mentioned above, any deteriorations which the property may have suffered and all natural events which might diminish its value, or disturb his possession or injuriously affect his rights of ownership.

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* *See* sections 19 to 25 of the law *supra*, and pp. 108–9 and 308 of Vol. I.

† This indicates a grave Indian difficulty; the French bank recognizes it, though a far less common or intricate question in *that* country of surveyed, settled, and fairly well registered estates and claims.

‡ This prevents the bank from undertaking the rôle of a land improvement bank: it will not lend on property which, after and by means of the expenditure of the loan, may become valuable, but is not so at the time the loan is sought. Such loans are given by a different class of banks and under special precautions. *See infra* 'Land Improvement bank,' and Vol. I, pp. 70, 63–65. This section also explains the refusal, in section 54, to grant loans on theatres, mines and quarries.

§ That is, of the estimated value, and great care is taken that such value shall be well within the market value.

‖ This indicates the uncertain value of such properties in France, where the phylloxera, droughts, floods, and hail frequently destroy properties or their crops to a frightful extent.

¶ This is a noteworthy precaution adopted in security both of the bank and of the borrower. The bank will not allow reckless engagements to be entered into, it being obvious, that if a man's income or circumstances are such that he must borrow, that income cannot suffice to maintain him and also repay the loan, except where the loan is intended for a *bonâ fide* and certain improvement. This point is too often lost sight of by borrowers and by lenders—the latter often with intention—in this country.

** This condition marks the care with which the bank, in conformity with the law, seeks to make its loans as cheap as possible. If the bank can borrow at 4 per cent., the interest payable to it by the borrower shall not exceed 4·60: if it succeeds in placing its debentures at 3½ per cent., the charge to borrowers *ipso facto* falls to 4·10. The cost, however, must be the actual cost to the bank: its debentures may be issued at 3½ per cent., but at a considerable discount, or there may be additional charges for lottery prizes, bonuses on repayment, &c.; this must be taken into account in calculating the actual rate paid by the bank.

†† The sinking fund contribution obviously differs according to the rate of interest even when the duration of loans is the same, *see* Vol. I, pp. 108–110.

‡‡ The present rate of such compensation is 0·5 per cent. as per section 9 of the law of 6th July 1860. The compensation is to indemnify the bank for any loss, delay, or cost incurred in the re-investment of the amount.

In default of such notification and in any case should the interests of the bank be compromised by such deterioration or events, the bank may in conformity with section 32 of the law of 28th February 1852 (*see supra*, p. 16) demand repayment of the loan.

66. The loan shall equally be liable to recall, with the compensation mentioned in section 63 *supra*, should the borrower conceal any suits upon claims at law (hypothèques légales), or for cancellation or rescission (of a contract affecting the property) which may form a charge upon the property mortgaged to the bank.

67. Property liable to damage by fire must be insured at the cost of the borrower, unless the bank at the same time holds in security of the debt not only the property in question, but also other property not liable to damage by fire and double the value of the debt.

The loan deed shall contain a condition transferring (to the bank) in case of damage the amount insured.

The policy must be maintained throughout the whole duration of the loan.

The bank may require that the policy shall be made out in its own name and that the premia shall be paid by itself. In this case the amount of the annuity (payable by the borrower) shall be correspondingly increased.

68. In case of damage the amount assured shall be paid direct to the bank.

During one year from the date of the damage, the debtor shall have the right of restoring the property to its original condition. During that period the bank will hold the amount of insurance as a security; after the property has been restored to its original condition, it shall pay over the amount to the debtor after deducting any dues.

If, at the end of a year, the debtor has not used his right of restoring the property, or, if, before that time, he has notified to the bank that he does not intend to restore it, the bank shall definitively credit itself with the assurance amount, setting it off against the debt as a payment in advance.

69. Repayments in advance arising from such damage do not carry the compensation sanctioned in section 63.

The bank may demand (the immediate) repayment of any balance due, should it deem that its interests are endangered by the damage.

70. In the valuation of properties offered in mortgage, all documents, lease deeds and other sources of information tendered by the proprietor seeking the loan shall be considered. The bank may also cause a valuation to be made by experts. In all cases the valuation shall be made upon a consideration both of the actual income and of the market value.

71. When the property is in order and the security sufficient, the board of directors will determine the amount of the loan to be made and will proceed to the execution of the conditional loan deed.

72. After obtaining the supplementary statement of registered claims, including that of the bank, the formalities of the 'purge*' will be carried out if necessary: after such formalities or at once, should the 'purge' not be necessary, a deed shall declare the conditional deed to be cancelled or rendered absolute, according as registered claims burdening the property shall or shall not have been discovered.

In the first case the document must contain a withdrawal of the registration in favour of the bank, and must be signed by the governor only. In the second case the document must be signed by both the governor and the borrower; it shall recite the completion of all formalities, the delivery of bonds (debentures) to the amount of the loan, and the date from which interest shall run.

73. All costs and disbursements necessitated by the request for a loan shall be at the expense of the candidate for the loan even where such a loan is not finally granted.

Chapter V.—Land Mortgage Debentures.†

74. The land mortgage debentures issued by the bank shall be to order or to bearer (nominatives ou au porteur).

75. Debentures to order are transferable either by mere endorsement without further guarantee than that provided by section 1693 of the Code Napoleon (*see* section 13 of the law *supra*), or in such other way as may be determined by the board of directors.

The bank is free from further responsibility when it has paid the person holding the debenture (tiers porteur); in no case is it responsible for the regularity of a transfer.‡

Debentures to bearer are transferred by mere change of hands.

76. The amount derived from the issue of land mortgage or communal debentures shall not exceed that of the mortgage or communal loans granted by the bank.§ The amount derived from such issue shall, pending their regular employment (in loans), be invested in the proportion to be decided by the board, in Government paper, in debentures of the City of Paris, of districts, and of communes, in shares of the Bank of France, in land mortgage and communal debentures, and in debentures of railway companies, the interest on which is guaranteed by the State.

77. No land mortgage debenture shall be issued below £4 in value.

78. Holders of debentures have no right of action for the recovery of their principal and interest save directly against the bank.

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* *See* Vol. I, pp. 108–109 and 308; also sections 19 to 25 of the law *supra*.

† By section 5 of the law of 6th July 1860 relating to loans to communes, debentures issued against loans to communes, &c., (obligations communales) are placed under the rules of the Chapter V, and also enjoy all the rights and privileges of land mortgage debentures.

‡ This provision (*cf.* section 79, last clause) relieves the bank from connection with the thousand disputes that may arise regarding the title to debentures and their interest; the bank is entitled to pay to the person holding or presenting the debenture or the interest coupon, and any claimant must sue such person and not the bank.

§ That is, the amount of the land mortgage debentures shall not exceed that of the land mortgage loans, and that of the communal debentures shall not exceed that of the communal loans: *see* section 6 of the law of 6th July 1860 *supra* relating to loans to communes; the two classes of loans are quite distinct.

79. Debentures shall bear interest, the rate, date and mode of payment of which shall be fixed by the board of directors. No longer period than three months shall intervene between the payment of interest by the bank's borrowers and the payment of interest to the debenture-holders.

In whatever form the debentures are issued (whether to order or to bearer), the payment of interest to the holder is valid.

80. Debentures shall be in the form of documents which shall be taken from a stub. They shall be signed by a director, stamped with the seal of the bank, and countersigned by the governor.

81. The board of directors may authorize the deposit of such debentures in the safe; a certificate in the name of the depositor shall be issued to be returned at withdrawal. The board shall determine the conditions, &c.

82. Debentures shall bear no fixed date for repayment of the capital.* The particular debentures to be repaid shall be determined by lot (tirage au sort).

Every repayment shall include so many debentures as may be necessary to prevent those remaining in circulation from exceeding in value the amount outstanding on mortgage.

83. With the permission of Government debentures may be made repayable with prizes and bonuses.†

The board of directors shall determine the rates and amount of such distribution.

84. The drawings are carried out by the board of directors in presence of the supervisors (censeurs).

85. Within eight days of each drawing the numbers drawn must be published by notice at the bank office and by advertisement in two of the newspapers in which the banks notices customarily appear.

86. The debentures of which the numbers are drawn shall be repaid on the day mentioned in the published notices, from which date interest thereon ceases.

87. Debentures drawn by lot must, on repayment, be immediately marked with a cancelling stamp. They must be destroyed in presence of the governor, of a director, and of a supervisor, and a memorandum of the fact duly drawn up.

Debentures, which return to the bank through payments in advance, must be marked with a special stamp, and cannot be re-issued without fresh countersignature by the governor. They take part like other debentures in the periodical drawings.

Chapter VI.—(Deals with the Annual Balance Sheet.)

Chapter VII.—Division of Profits.

89. The actual profits are distributed as follows:—

(1) Five per cent. on the paid-up capital is allotted to the shareholders:

(2) An amount not less than 5 per cent. and not exceeding 20 per cent. of the remainder is passed to the obligatory reserve; other sums may also be allotted to optional reserves, ‡ if so proposed by the board and approved by the general meeting.

The remainder will be added to the dividend due to the shareholders.

90. Every dividend not claimed within five years from date of declaration accrues to the bank.

Chapter VIII.—The Obligatory Reserve. §

91. The obligatory reserve is accumulated from the proceeds of the annual allotment from profits as per article 89 *supra*.

When such reserve reaches the amount of one-half of the bank's own capital, such allotment may cease, but is renewed should the reserve be drawn upon.

This reserve is intended to meet unexpected emergencies should the dividend of any year fall below the amount of 5 per cent., the deficit may be met from the reserve.

The investment of the funds of the reserves, both obligatory and special, are determined by the board of directors.

(The remaining chapters treat merely of changes in the articles, and of dissolution and liquidation, and do not call for translation.)

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* That is, no specific date is marked on a debenture for the payment of that particular debenture. But they all bear a promise of repayment within a particular term, *e.g.*, "Repayable at par as determined by lot (tirage au sort), at latest within 75 years from 1st January 1884."

† One great secret of the market value of these debentures lies in this article. The "tirage au sort" is not necessarily a lottery; it is merely a determining by lot (by withdrawing numbers at random from a wheel) the particular debentures to be repaid; this is frequently resorted to in England for the same purpose. But in Continental Europe it is usual to increase the popularity of these securities by adding the chance of prizes or bonuses. *E.g.*, in the Crédit Foncier, at each of the four or six drawings per annum for each issue or series of debentures (loans of 1853, 1863, 1879, &c.) many hundreds or thousands of debentures each of (say) £20 will be drawn by lot and repaid at par, but, *in addition*, a certain number, *e.g.*, the 50 or 100 first drawn, will obtain prizes varying in value from £4,000 to £50 each. This, though partaking of the spirit of gambling, since the prizes are in reality obtained from a share of the excess paid by the many over the true market value of a debenture at the nominal interest of the debentures, is not a regular gambling lottery where a few gain everything to the total loss of the many; every debenture-holder is eventually repaid at par and may gain a prize.

The method of repaying with a universal bonus is wholly free from the real gambling spirit; a debenture costs an original purchaser £20, and is repayable not at par but at (say) £25; *e.g.*, the loan of 1853–54 is wholly repayable at this rate. Here every one obtains a bonus, and the only element of chance is in the accident of drawing whereby some holders obtain early repayment of their investment *plus* the bonus. Occasionally the prize and bonus system are combined.

‡ *E.g.*, reserves for equalizing dividends, for the provision of prizes and bonuses, for recouping any difference between the market and par value of debentures, &c.

§ Obligatory by section 48 (8) of the law, *q.v.*

LAW OF 6TH JULY 1860.

(Authorizes the Crédit Foncier of France to lend to districts, communes, and syndical associations.*)

1. The 'Crédit Foncier' is authorized to lend on the following conditions to districts, communes, and syndical associations such sums as they may have been permitted † to borrow.

2. Loans may be granted with or without mortgage, ‡ and repayable either over a long term by annuities or in a short period in lump or by instalments.

3. Loans are payable in cash only.

4. The commission payable to the bank towards costs of management shall not exceed 0·45 per cent. per annum.§

5. The bank is authorized to issue debentures in representation and to the amount of its loans (to the above bodies), in conformity with the rules contained in Chapter V of the articles of the bank.

These debentures shall enjoy all the rights and privileges attached to land mortgage debentures by the laws governing the Crédit Foncier.

6. The sums due to the bank on account of loans to communes, districts and associations are specially and preferentially assigned for the payment of the debentures issued under the present law.

The sums due to the bank on account of land mortgage loans remain assigned specially and preferentially for the payment of the debentures issued in representation of such loans.‖

7. The bank may, before granting any loans under the present law, issue temporary debentures for a sum not exceeding £200,000.¶

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* This is an important development of the Crédit Foncier; the demands of an advancing state of society with local Government require roads, schools, hospitals, sanitation, agricultural developments and many other classes of local improvement, and for these money is necessary, the burden of which should, by natural equity, be spread over many years and be borne by those who successively enjoy them; it is impossible and inequitable to provide the capital for those improvements from revenue, and the result is a demand for long-term loans repayable by annuity.

There are many reasons why the State cannot grant these loans to any great extent; it is difficult for a great State to provide in its budget the large sums annually necessary; the delays in investigation of the projects and in the provision of funds are annoying; it depreciates State credit to owe immense debts; and there would be a perpetual tendency on the part of local bodies to try and shift burdens, actual or prospective, from their own shoulders to those of the State. Hence the necessity for a great financial institution expressly organized to examine local demands for considerable loans and able to provide funds to any extent at a moment's notice.

The 'Crédit Foncier' has been able to meet this demand to an immense amount: between 1860 and 1890 it had granted 16,577 communal loans for £78,720,000, and the outstanding loans in 1890 were valued at £46,540,000.

The bodies to whom loans may be advanced are 'Départements, communes, et Associations syndicales.' An elaborate exposition of French administrative methods would be necessary exactly to explain these terms; suffice it to say that the word 'Département' may be rendered 'District' or 'District Board' for Madras readers, though the Département of France is more closely connected with the general administration than the District Board with its mere local powers.

The commune or village is a European unit which has no counterpart in Madras administration except the inchoate village union: the European village is a small municipality with property, budget and local powers quite unknown in this Presidency; the possible development of the Madras village as an administrative unit is one of the most interesting of political and social studies and problems.

The 'Association Syndicale' is another organization peculiar to Europe, and well worth detailed study as an example for this Presidency. It is found in Europe that many classes of agricultural and rural development cannot be carried out by individuals; joint action is necessary, such action often extending over the area of several communes; such are the provision of dykes and banks against encroachments by the sea and rivers, the regulation and improvement of canals both for navigation and irrigation, the draining of marshes, the afforestation of tracts of country, the development of waste and incultivable areas, &c. Hence laws have been passed for the encouragement and even the enforcement of such associations; Government in Europe does not profess to carry out the irrigation and other works undertaken in this Presidency by the Revenue, Public Works, and Forest Departments, nor is it content with merely suggesting such enterprises by joint action; it frequently compels such improvements at the expense of the people themselves. For a brief notice of such forced or voluntary associations in Prussia, *see* Vol. I, pp. 63 and 64, the laws being those of 1843, 1846, 1848, 1854 and 1879; *see* also 'Report on the Land Tenures of Europe,' 1869, &c. In France the law for 'Associations Syndicales' is that of 24th June 1865, amended by that of 22nd December 1888, but the associations were of earlier origin and were regulated by special decrees. The objects of these associations are recited under nine heads and are of the nature mentioned above; the associations may be free or authorized; the latter alone have certain privileges and are much the most important; these authorized associations are either voluntary or formed upon the initiative (practically the orders) of the mayor, prefect (collector), &c. The execution of the objects of the associations is assigned to syndics (trustees or agents) and a Government set of rules prescribes certain details. The law will be found translated in another part of this appendix. By the law of 26th February 1862, the present law (of 1860) by which the Crédit Foncier may grant loans to communes, &c., is extended to hospitals and other public institutions, and, in certain cases, to religious establishments, benevolent bodies, and other institutions of recognized public utility.

† Permitted, that is, by the authorities which regulate their working. The several bodies are governed by their respective laws and rules framed thereunder, the study of which is of the highest interest.

‡ The public bodies of the first two classes are usually in possession of considerable property in lands, buildings, and own funds; these are mortgagable in the ordinary sense. But, as public bodies, they obtain large sums by annual rates and taxes and by contributions from the Treasury, and these sources may presumably be pledged in security of loans.

§ That is, the difference between the interest payable by the borrowing institution and that paid by the bank on their debentures shall not exceed 0·45 per cent.

This commission was abolished in 1879 by a resolution of the board of directors, but re-established in 1883 as regards syndical associations and fixed at 0·40 per cent.

‖ That is, the two main sets of operations are kept perfectly distinct; the debentures under the general law governing the Crédit Foncier (1852, &c.,) are secured by the land mortgage loans granted as the primary business of the bank, while its debentures issued against loans to communes, &c., are secured by such loans only and not by the mass of mortgages held under the general law.

¶ Obviously to provide a first working capital, the general credit of the bank being good enough for so moderate a sum.

8. The shares issued by the bank shall be kept at the ratio of at least one-twentieth of the debentures in circulation.

9. In case of repayment in advance, the compensation payable by the debtor is fixed at 0·5 per cent. of the amount repaid.

In modification of article 63 of the articles of the bank, the preceding rule shall apply to all * operations with the bank.

LAW OF 8TH JUNE 1871, RELATING TO THE BODEN-KREDIT INSTITUT (HUNGARY).†

1. The land bank is placed under the jurisdiction of the commercial court of first instance in Pesth in so far as regards all actions by or against the bank. There shall be no exception to this rule unless expressly so provided by the present law.‡

2. Questions relating to the repayment of the debentures or bonds issued by the bank shall be dealt with by the said court.

3. The said court shall also proceed to execution against the debtors of the bank in so far as relates to their movables found within the limits of the City of Pest-Ofen; when their movables are beyond such limits execution shall be had on application to the judicial authority of the locality in which such debtors are domiciled.

When execution is sought against immovable property, recourse shall be had to the court within whose jurisdiction such property is situated.

4. When proceedings in bankruptcy are begun against a debtor, recourse must be had to the court adjudicating thereon.

5. The bank may, as plaintiff, sue for the fulfilment of its dues under the procedure mentioned in the present law whether before the court in which its debtor would ordinarily be sued or before any court expressly mentioned in the debt bond.

6. The courts mentioned in the above sections are bound to expedite the disposal of demands of the bank, placing them *extra seriem* (outside of the ordinary cause-list) and hearing them on the next court day; they are similarly bound in the case of applications by private persons which refer to loans granted by the bank. In all such cases the decisions shall be announced without delay.

7. The books are to be kept in conformity with law XVI of 1840; extracts from the principal books and accounts signed by the directors are admitted as complete proof (of their contents).

8. Receipts, acceptances, orders, and drafts drawn in the form of promissory notes in the maker's hand-writing or letters in favour of the bank and signed by the maker shall, when the parties are in (business) relations with the bank, be admitted in full proof against the maker or his lawful heirs without the necessity for any legal visa or for the attestation of two witnesses or a certificate that the amount has been paid in cash.

9 and 10. (Relate to the probative force of the signature of persons in relation with the bank.)

11 to 15. (Repealed by law XLV of 1879.)

16. A property mortgaged to the bank and registered in a single survey folio may not be sold without the consent of the bank.

17 and 18. (Repealed by law XLV of 1879.)

19. When a loan has been granted by the bank, such loan shall not, without the consent or order of the borrower, be subject to any claim upon a guarantee, or to any distraint, or to any injunction on behalf of a third party, and the bank, so far as regards loans granted by it, is not bound to take notice of any injunctions whether by the judicial or by the revenue authorities.

The bank is bound to take notice of judicial execution or similar injunctions upon the deposits of private persons, so far as regards the return of the deposit note § (polizza di deposito); but even in this case the prior claim of the bank and especially the right of recouping its dues from the deposits shall not be affected when the bank has taken action against the owner of such deposit, save where the claim of the third party upon the deposit was in actual existence when the deposit was made and the bank had notice thereof at the time of making such deposit.

20 to 23. (Repealed by XLV of 1879.)

24. All the correspondence, whether received or despatched, of the bank with the district authorities shall be exempt from postal charges when the covers bear the seal of the bank and the endorsement "on land bank business."

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* That is, to all operations whether mortgage loans under the general law of 1852 or communal loans under this law.

† *See* pp. 77, 78 of Vol. I. The words 'land bank' or 'bank' will be used in the translation relating to this institution, instead of the somewhat cumbrous full name. The translation is taken from the Italian in the 'Bulletin relating to credit and providence' of the Minister of agriculture, &c., for 1888.

The laws and parts of the articles relating to the bank are translated or abstracted, because the case of this bank has been quoted by some authorities in favour of similar banks and of certain privileges for India.

‡ The commercial courts of Europe are peculiar to the continent; they deal with all commercial matters, usually in a cheap and summary way. It is hoped, if time permit, to translate certain laws on the subject in this appendix. There is no privilege—as wrongly supposed—in placing the bank under the commercial court; that is a right enjoyed by the bank in common with all other banks: the privilege of section 1 is that the bank may sue and be sued for any of its transactions in one particular court. The real privileges are found in sections 6, 7, 16, 24, 25 and 27 of this law.

§ Apparently this means that a person who has put in a deposit against a receipt shall not be allowed to withdraw the deposit and return the receipt if any court execution or injunction has been served upon the bank.

25. All applications (for loans ?) made to the bank shall be free of stamp duty. In other matters the bank is bound as regards stamp duty by sections 3 and 11 of law XVI of 1869.

26. The bank will deduct the income tax from the interest due on its debentures.*

27. So much of the annual profits of the bank as are allotted to the reserve shall be exempt from income tax. The bank must pay income tax in conformity with law of XXVI of 1869, section 2 (1), but only upon such amount as shall be due to "founders" as interest upon these founders' shares. †

28. The ministers of justice, of commerce, and of finance are charged with the execution of the present law.

LAW XXI OF 5TH JUNE 1876.

The conditions of law XXXVII of 1875 regarding societies are applicable with the following modifications to the Hungarian Boden-kredit Institute.

1. The following shall be members of the general meeting:—

(*a*) Those members of the bank who are indebted to the bank on a mortgage of at least 50,000 florins (rupees);

(*b*) Representatives chosen in the district meetings of such persons as are indebted to the bank on mortgages individually less than 50,000 florins, at the rate of one representative per 400,000 florins of mortgage debt;

(*c*) Foundation members.

2. One-half of the committee of supervision shall be triennially elected by the founders' meeting and the other half by the general meeting.

3. The committee of supervision, in addition to the powers granted to the audit committee (under the general law above mentioned), shall have the power of laying down rules for the conduct of business, of settling the number of directors, of appointing and dismissing the ordinary members of the directorate, and of agreeing with them, by regular contract, as to the conditions of employment. To this extent the committee is responsible to the bank.

4. The chairman of the directorate shall be selected by the general meeting from three names to be submitted by the founders' meeting.

5. Any proposal to alter the articles shall be submitted to the general meeting only when it has first been approved of by the founders' meeting.

A resolution modifying the articles must obtain the confirmation of Government before being put into operation.

A royal commissioner shall be appointed in view to insure the strict observance of the articles, but such appointment shall not in any way diminish the legal responsibility of the several authorities of the bank.‡

7. The ministers of agriculture, industry and trade, of justice, and of finance are charged with the execution of this law.

ARTICLES OF THE HUNGARIAN BODEN-KREDIT INSTITUT (LAND BANK).§

CHAPTER I.

1. The object of the land bank is to procure safe credit for landed property the owners of which are associated in mutual and unlimited liability (riunita in associazione sulla base della solidarietà);‖ such credit shall extend to one-half of the value of the mortgaged property.

* * * * *

4. The bank shall be situated at Buda-Pesth.

CHAPTER II.

5. The members of the bank are the founders and the borrowers on mortgage.

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* This is obviously intended to give the debentures increased market value. The income tax is ordinarily due upon the interest received by the holders of securities, and is usually retained by the persons or firms, &c., paying such interest and accounted for to the revenue officers. In the case of this bank the income tax is not so retained, and the revenue officers have presumably to follow the fiscal dues by application to the receivers of the interest if they can find them, which is hardly possible where the debentures are "to bearer." Hence this privilege assists the popularity of the debentures.

† *See* Vol. I, pp. 77, 78 and 100, sections 5 to 10 of the articles translated below. It seems hard to tax founders who acted more or less philanthropically in taking founders' shares.

‡ The commissioner is apparently appointed by the ministers mentioned in section 7.

§ Only such articles are translated or abstracted as are of special interest.

‖ It is to be particularly noticed that the bank is not a joint stock, dividend-earning bank, but a mutual association of proprietors on the principle of unlimited liability as regards the ordinary members, while the founders being philanthropic and patriotic in their aims, content themselves with—for Hungary—the very moderate fixed interest of 5 per cent. on their *paid-up* capital (one-tenth of their guarantee) though they render themselves liable in the whole amount of their guarantee (ten times the paid-up capital): in other words they run a very heavy risk for a return equal to only 0·5 per cent. on the amount guaranteed. All services moreover are gratuitous; hence the privileges with which the bank is to some extent endowed, *see* Vol. I, pp. 77, 78 and 100.

6. Founders * (soci fondatori) are those 209 proprietors who deposit in cash and bonds a guarantee fund of 1,677,000 florins (rupees) and whose duty is the organization of the bank on a sound footing †

7. Founders exercise their functions under these articles through the founders' meeting, the committee of supervision, and in the general meeting.

8. The smallest foundation share shall be 5,000 florins; a founder may subscribe for one or more shares. Ten per cent. of the sum subscribed by each founder shall be paid in cash and the remainder in nine bonds, each of which shall be equal to one-tenth of the subscribed amount. ‡

9. These nine bonds (deposited by each founder) shall be returned one by one to each founder in proportion as the reserve fund increases. When the reserve fund shall have passed the sum of half-a-million florins, exclusive of the 500,000 florins granted by the provincial (district) funds, or a total of 1,000,000 florins, and when this 1,000,000 florins shall show a further increase of 10 per cent. of the original foundation fund (section 6 *supra*), one bond shall be returned to each founder for every successive addition of 10 per cent. until all the nine bonds shall have been returned. The 10 per cent. paid in cash shall be held permanently in the reserve, and interest thereon shall be paid at 5 per cent.

10. Foundation shares shall not be transferable without the consent of the bank.§ If a founder dies, his share shall be entered in the name of such heir in the direct line as shall prove his title to the satisfaction of the directors. If there are several heirs, that one to whom the others give a proxy shall exercise the rights of member.

If there are no heirs in the direct line, the founders' meeting shall select the person admissible as legal heir. In this case, however, the value of the foundation share with interest shall be paid to such successor and the vacancy thus caused shall be filled up by a new founder to be approved by the founders' meeting.

If a founder becomes bankrupt, or if the bank has to levy upon his share amount by way of distraint, he shall finally lose his rights as a founder. In such case the founders' meeting shall, after repaying the share value, decide whether a new founder shall or shall not be admitted in his place.

11. The (ordinary) members of the bank are all proprietors who, being in possession of an estate within Hungarian territory, which is registered in the survey books and which is capable of providing security under these articles for a loan of at least 1,000 florins, shall have applied for and obtained a loan from the bank.

12. A person becomes a member (*a*) on obtaining a loan from the bank; (*b*) on acquiring an estate on which a loan has already been granted by the bank.

13. On acquiring an estate on which a loan has been granted, the acquirer must notify the bank of the fact within 15 days of the registration (of his acquisition) or of his taking possession; otherwise the directors may call in the loan as provided by section 75.

14. A member quits the bank (*a*) when, on the complete repayment of his loan, the bank returns to him his debt bond; (*b*) when the estate on which the mortgage loan was granted passes legally into the hands of a third person, and the original debtor obtains from the bank a declaration absolving him from responsibility for the debt.

Chapter III.—Authorities (Organi) of the Bank.

15. The bank authorities consist of (1) the founders' meeting, (2) the general meeting, (3) the committee of supervision, (4) the chairman of the boards of directors, (5) the board of directors, and (6) the district committees. ‖

* * * * *

34. The committee of supervision is charged with the duty of rigorously and continuously (senza interruzione) supervising the administration of the directors in such wise that nothing shall be done contrary to these articles or that may endanger the safety of the bank.

* * * * *

38. If a member of the committee of supervision or of directorate becomes bankrupt, he is considered to have vacated office.

* * * * *

48. *Local Committees.*—To assist in the work of the bank in the districts, local committees shall be established in every district or other area, consisting of members of the bank; these shall, in conformity with instructions issued by the board of directors, represent the bank in making valuations, paying dues, in testing securities, in making distraints, and in observing carefully the condition of the properties of the several members of the bank.

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* More properly "foundation members," for these members need not be the original founders, but holders by transfer, &c., of foundation shares.

† It will be seen from sections 6 to 9 that the founders take a risk of (say) 5,000 florins, and drew interest on 500 : that is, the *sole* recompense for the risk they run, and the trouble they undergo in founding and in assisting to work the bank. Even 5 per cent. moreover is or was at that time (1863) below the market rate for investments in Hungary. Such banks can rightfully claim privileges such as the exemption from income tax; in fact there is no share income worth speaking of to tax.

Writing in 1884 from Buda-Pesth M. de Wagner stated that all the bonds had been returned to the founders.

Their liability is not unlimited as is the case with the ordinary members, but they are responsible only to the amount of their subscription, viz., cash *plus* bonds; when the bonds are returned, they are liable only for their cash contribution and for the amount of such bonds as may still remain with the bank.

‡ That is, each founder subscribing (say) 5,000 florins pays down 500 in cash and deposits nine bonds of 500 florins each for the remainder.

§ The reason is that the guarantee of the new transferee might be worthless. In mutual societies, which are enlarged *partnerships*, members are selected; they are not mere holders of shares.

‖ The nature and duties of the several bodies here mentioned are sufficiently described in Vol. I, pp. 77, 78 and 100; hence articles 16 to 47 are omitted except 34, 38 and 48. Nothing is said in these articles about remuneration to directors and other authorities; it is elsewhere stated that services are gratuitous.

Except for very strong and good reasons, the validity of which shall be considered by the board of directors, every member of the bank is bound to undertake the duties above mentioned.

Chapter IV.—Business of the Bank.

49. The bank will grant loans either in cash or in land mortgage debentures.

50. Loans in debentures shall be made upon mortgages repayable by sinking fund as laid down in the following chapter.

51. Loans in cash shall be made when funds are available either on short-term mortgages or on bills or on (the deposit of) securities.

52. Short-term mortgage loans of three or six months at most, may be made (*a*) to members * whose estates are not mortgaged or otherwise charged up to one-half of their value as fixed by the bank; (*b*) to non-members who possess estates free of mortgage or other charges.

53 to 57. (The borrower gives a bond for a sum one-half larger than the credit to be opened to him; the bond amount must not exceed 30 per cent. of the value of the estate, or 50 per cent. with any prior debts thereon to the bank. Short-term loans may be converted into regular long-term loans with the issue of debentures. Loans must be paid up punctually, failing which the bank may proceed to execution against the debtor or may convert the loan into a loan with debentures.)

Chapter V.—Conditions of Mortgage Loans.

58 to 81. (Loans granted by means of land mortgage debentures must not exceed 50 per cent. of the value of the mortgaged estate, calculated either by actual valuation or at sixteen times the net income, as entered in the tax registers, less taxes and cesses. Loans may, as a rule, only be granted on estates free of prior mortgages or when the prior creditors yield their priority to the bank; where loans on estates with prior mortgages are granted, the aggregate with the bank's loan must not exceed the above 50 per cent., and the debtor must annually produce proof that he is regularly paying the dues on the prior mortgages, failing which the bank may call in its loan. The borrower may request the bank to pay off all prior debts from the proceeds of the loan granted by it. No loan can be granted on an undivided property held by several persons, unless all of them consent thereto. All fields (parcels) mentioned in a single folio (register entry, protocollo) of the land register must be made subject to the mortgage; single fields cannot be accepted. The borrower must regularly pay in advance his annuities comprising (*a*) interest, (*b*) sinking fund, (*c*) a charge for administration not exceeding 0·25 per cent. annually, (*d*) a contribution to the reserve. Any borrower falling into arrears without the prior consent of the bank must pay penal interest with an additional 1 per cent. contribution to the reserve if the delay exceeds 14 days; the bank may grant delays when the debtor has sustained losses from no fault of his own or in case of his death, interest at market rates being charged on the arrears. Within five days of default the bank may take out execution † against a defaulter, and may proceed both against the mortgaged property and against the other movables and immovables of the defaulter. The directors have the right of calling in the loan in the following cases: (*a*) when the borrower manages his property so negligently that there is danger of his becoming unable to pay his annuities owing to the deterioration of the estate; (*b*) when he fails to prove that he is paying the dues punctually on prior debts due on the estate to third parties; (*c*) when a private creditor takes out court execution against the bank's borrower and the latter is moreover in arrears with a half year's dues; (*d*) when the property charged with the loan, or part of such property is transferred whether *inter vivos*, or by succession to a third person who fails to accept the conditions of the bank's loan within a period fixed by the bank; (*e*) when the debtor does not carry out, within the prescribed period, the conditions agreed upon; (*f*) when the debtor is in arrears with three consecutive instalments, so that coercive process is necessary to obtain payment by calling in the loan and by proceeding the execution (as above) for the arrears. In the cases (*a*) to (*e*) notice of the recall may either be made either through the courts, or it may be made direct after three advertisements in the official Gazette; with six months from such notice or from such advertisement, the whole capital interest and other dues shall be payable. If the debtor objects to the notice, he must do so before the commercial court at Buda-Pesth. Should the debtor fail to repay his loan, &c., within the time fixed by the notice, the bank may either claim execution or may withdraw from circulation debentures corresponding to the loan, debit the defaulter with their value at the market rate of the day, and obtain collection of such sum by coercive process. ‡ If a debtor becomes bankrupt or when his property is sold at auction, the bank has the right of transforming its claims into a cash debt as above and to obtain execution. All costs for processes and appearances (in court) shall be at the charge of the debtor).

Chapter VI.

82 to 90. (Relate to the extinction of the loan by amortization, through fixed annuities, with the right of whole or partial repayment in advance, in which case the annuity may be proportionately reduced in amount the number of years remaining the same, or the annuity may remain the same, but the number of annuities may be decreased. After the extinction of (every) 1,000 florins of debt, the borrower may demand a corresponding diminution of the mortgage entered on the land register.)

Chapter VII.—Land Mortgage Debentures.

91. Land mortgage debentures are bonds by virtue of which the bank is bound to pay to the holder the principal therein mentioned together with interest on the conditions contained in the bonds. The bank has the right of repaying such debentures at par on six months' notice, but the holder does not possess the converse right of requiring repayment (at any given time).

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* It will be remembered that an ordinary member is one whose estate is mortgaged to the bank for a loan.

† The procedure is through the commercial or other court; *see* section 3 of XXXIV of 1871 translated *supra*.

‡ Execution and coercive process ('via esecutiva' and 'procedura esecutiva' appear to be synonymous terms and to be judicial or court processes under section 3 of the law.

92. The debentures must be properly signed and sealed, and must contain a declaration by the chairman of the committee of supervision that the sum secured thereby is guaranteed by mortgage debts (due to the bank).

93. The rate of interest shall be determined by the money market with a view to the advantage of the bank's borrowers. The debentures shall mention a period within which they must be repaid in lawful currency, with or without bonuses.

Articles 94 to 108 present no special interest: they lay down rules similar to those of other banks in Germany, Italy, and France; *see* translations *supra*.

Chapter VIII.—Rights of Debenture-holders.

109. The debentures of the bank are secured not only by the foundation capital and by the mortgages * against which the debentures are issued, but also by the mutual and joint liability (reciproca solidarietà) of the members.† With this view a special guarantee fund shall be contributed by these latter.

110. (The capital and interest of debentures must be punctually paid.)

111. The funds available to secure such repayment are the reserve fund (Chapter IX), the sinking fund, and the members' guarantee fund (Chapter IX).

112. For the information of the public the bank shall publish quarterly a balance sheet, a statement of the sinking fund accumulations, of the reserve, and of the members' guarantee fund.

113. If the bank does not meet its engagements with the debenture-holders, they have the right of proceeding to execution against the bank in the Commercial Court of Buda-Pesth, which in such cases shall take cognizance by summary oral proceedings.

114. Such execution shall first proceed against the special guarantee fund; after that is exhausted against the reserve: finally against the mortgages held by the bank: in this last case the amount levied shall not exceed that for which the mortgage was granted to the bank.‡

Chapter IX.—The Reserve.

115. The reserve comprises (*a*) the funds subscribed by the founders; (*b*) the 500,000 florins assigned from provincial (*quære* district) funds for that purpose; (*c*) the net annual profits of the bank; (*d*) the members' guarantee fund (articles 109 and 111).

From this reserve a sum amounting to at least one-twentieth of the value of debentures in circulation must be set apart and separately managed (as a special guarantee for the debentures).

116. The reserve may be invested (*a*) in advances upon land-mortgage debentures up to three-fourths of their market value and for terms not exceeding three months, with permission to renew; (*b*) in advances on other good securities quoted on the exchange and fully paid up to an amount and for terms as in (*a*); (*c*) in the discount of securities of not more than six months' échéance, approved by the directors and by the committee of supervision; (*d*) in the discount of bills with at least three signatures and for not more than three months; (*e*) in good securities bearing fixed interest and quoted on the exchange; (*f*) in immovable property.

(The conditions of the law of 19th June 1876, on land mortgage debentures, must be strictly adhered to in the matter of purchasing landed property from the fund specially securing such debentures. It appears that such property may only be obtained where borrowers fail to pay their dues.)

117 to 119. (Rules for term and other deposits. These are apparently inserted here as a means of providing money for current needs.)

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121. When the reserve shall have passed 1,500,000 florins, the general meeting shall decide whether the expenses of management cannot, either wholly or in part, be met from the interest accruing thereon, and whether the borrowers cannot be relieved from the payments due for such expenses.

122. The members' guarantee fund shall be accumulated from a contribution *ad hoc* by each borrower of 1 per cent. of the sums borrowed.

123. This amount shall be held as a deposit in favour of the depositor until complete extinction of his debt,§ and shall accumulate at simple interest; the interest upon such interest shall go to the reserve.

124 and 125. When the bank has sustained a loss which is not covered by that part of the reserve accumulated from profits, the deficit shall, in the first place, be made good from the members' guarantee fund, and each member must then make up the consequent deficit in the guarantee fund. Six weeks' notice shall be given of such demand and such notice shall be deemed compulsory.

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* That is, the mass of debentures are secured by the mass of mortgages: a particular debenture is not secured by a specific mortgage.

† 'Membri,' not 'Soci fondatori'; that is, of the ordinary members or borrowers, not the foundation members, who are merely liable to the amount of their subscription.

‡ The liability is then not actually unlimited, but is restricted to the total amount of the loan taken from the bank by a borrower, *i.e.*, the total amount for which debentures were issued. Hence, with ordinary care in valuations, the debentures are fully secured by the mortgages alone, especially as the liability extends not merely to the amount remaining due upon a loan, but, apparently, to the full original amount thereof.

§ Apparently the deposit is then returned to the depositor with the interest thereon, or credited to his last instalment.

CHAPTER X.—MISCELLANEOUS.

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128. The judicial privileges of the bank, its exemptions in the matter of taxation and postal charges are governed by XXXIV of 1871, XXI of 1876, and XLV of 1879.*

129. A Government commissioner shall supervise the exact observance of the articles, the authorities of the bank remaining legally responsible.

130, &c. (The remaining articles relate to liquidation: 135 provides for the restoration in such case to the Government of the reserve fund and of the foundation endowment to the founders.)

HUNGARIAN LAW OF 19TH JUNE 1876 RELATING TO LAND MORTGAGE DEBENTURES. †

(1) Land mortgage debentures may be issued (*a*) by joint stock companies, (*b*) by associations of proprietors with a view to provide credit; (2) the articles of such banks shall contain full rules for the grant of mortgage loans and the valuation of properties; (4) and each such bank must provide beforehand a reserve of at least 200,000 florins as a special guarantee fund for the debentures to be issued; (5) this fund shall serve as guarantee for the whole mass of debentures and shall not be liable to any sort of execution (save on account of the debentures themselves); (6) this fund shall be invested in land mortgage debentures, State paper, loans on such securities up to three-fourths of their value and for three months at most with renewals, discount of securities and bills, and in buying in immovable property mortgaged to the bank up to the amount necessary fully to cover the mortgage amount; (7) the part of the guarantee fund invested as in section 6 must be completely separated from the general funds and managed separately; (8) and a special entry must be made in the land register against immovables that the sums invested therein belong to the guarantee fund only; (9) all documents relating to such registration entry shall, as regards such registration, be exempt from charges; (10) when the property thus charged is sold to a third party, the registration entry *ipso facto* becomes void; (12) debentures may only be issued up to the amount of loans fully covered by mortgages; (13) that is, where the value of the mortgaged property is at least twice the amount of the loan, or three times in the case of vineyards and woods; factories and mines are not admissible as securities for a loan; (14) debentures shall be withdrawn in proportion to the repayment of the mortgage loans. The mortgages of a bank shall continue as charges on properties notwithstanding any forced sale of such properties by the bank, and shall serve as security for the debentures until the bank shall declare the charge to be extinct; (15) the value of debentures in circulation shall at no time exceed for each bank twenty times the amount of its special guarantee fund; (17) the mass of mortgages of each bank shall be the guarantee for the mass of debentures issued by it, and shall not be liable to execution (attachment); (18) this legal privilege shall be entered against each such mortgage in the land register; (20) this special entry shall *ipso facto* become null on the extinction of the mortgage; and (21) any documents presented at the registration office for the above entry or for the cancellation of the same shall, *in that respect*,‡ be free of stamp charges; (21 to 25) if any attachment is made against a bank, the court must appoint a trustee for the debenture-holders, but attachment is void against the funds entered in sections 4, 5 and 17 as securities for the debentures, and the court shall so decide even without hearing the opposite party on application by the trustee; (27) should a bank become bankrupt, debenture-holders must be satisfied before any other creditor from the funds mentioned in sections 4, 5 and 17; (28) the funds mentioned in sections 5 and 17 shall be kept separate and managed by a delegate of the debenture-holders; (29) the directors of a mortgage bank must publish half-yearly in a newspaper and in the Gazette a statement showing precisely (*a*) the nominal value of debentures in circulation, (*b*) the amount of the mortgage loans which, under section 17, serve as security for the debentures, (*c*) the value of the properties as estimated for the purpose of the mortgage loans granted on them, (*d*) the amount of the fund set apart, under section 4, as a special guarantee for the debentures and a statement of the modes in which the several portions of the fund have been invested as per section 6; (30) this statement must, within eight days from publication, be sent to the court having jurisdiction; (31) the holder or holders of debentures to the value of one-tenth of those in circulation may, on depositing the debentures and a sum for expenses, require the court having jurisdiction to arrange for an examination by experts of the management of the bank's business so far as relates to the debentures and for a report on the same; the court shall hold the debentures till such examination be concluded; (32) directors may be condemned by the proper tribunals to imprisonment which may reach three months, even when no offence under the penal law has been committed (*a*) if they knowingly issue debentures to a value greater than that of the mortgages, (*b*) if they wilfully omit to withdraw from circulation debentures to the value of mortgage amounts repaid, (*c*) if they knowingly publish incorrect facts in the statement required by section 29, (*d*) if they disobey the directions of section 6, (*e*) if the bank reduces the guarantee fund below the limits mentioned in section 11, (*f*) if a bank issues land mortgage debentures before creating a special guarantee fund as mentioned in section 4, (*g*) if a bank issues debentures beyond twenty times the amount of the special guarantee fund (section 15); the penalty of imprisonment may be commuted to a fine which may reach 1,000 florins, if there are extenuating circumstances; § (34) directors are also punishable

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* *See* translations of these laws *supra*. XLV of 1879 has, however, not been obtained.

† This law is of general application, and is not special to the Boden-kredit Institut.

The provisions are not fully translated for want of space; an abstract merely is given. The figures in brackets refer to the sections.

‡ That is, they shall be free of the duties levied by stamps for registration purposes, though they must pay the ordinary stamp duties due according to the nature of the document.

§ The penalty in Great Britain for issuing debentures when not entitled to issue them, or to an excess amount, is £500 for every such issue.

with fine which may extend to 1,000 florins (*a*) for delaying to obtain the registration entry mentioned in section 18 within the prescribed period, (*b*) for neglecting to nominate a trustee under section 23 should the court omit to appoint one, (*c*) for omitting to publish in due time the statement provided by section 29 or to send it to the court, (*d*) for omitting to provide that the special guarantee fund, so far as it is invested in movable securities, shall be separately managed.

THE MORTGAGE DEBENTURE ACT, 1865 (29 & 20 VICT., CAP. 78), AND THE MORTGAGE DEBENTURE (AMENDMENT) ACT, 1870 (33 & 34 VICT., CAP. 20).*

LAW OF 22ND FEBRUARY 1885 REGARDING REAL CREDIT (ITALY).†

1. Real credit shall be granted by the following eight banks (names given, including the savings bank of Milan). Each of these may operate throughout the kingdom.

The Government may sanction, by royal decree, the exercise of real credit by (any other) societies or institutions which have a paid up capital of £400,000, these may also issue land mortgage debentures (Cartelle fondiarie) up to the amount of ten times their paid up capital as soon as they prove their possession of mortgages to the value of half their paid up capital.‡

These mortgages shall be entered into without any corresponding issue of debentures, and as they are paid off their place shall be taken by other similar mortgages, or by an equivalent amount of debentures withdrawn from circulation, which are to be charged (vincolate, *i.e.*, as securities for the general mass of debentures) and kept in deposit in the bank.

As entered in section 9 of this law, all mortgages accepted by the banks, societies and institutions form preference guarantees for the interest on and repayment of the debentures. The debentures specially charged and deposited (paragraph 3 *supra*) form preference securities to guarantee the interest and repayment of the debentures in circulation (*See* rules 1, 2, 3 and 4 of the rules of business).

2. The Government may also sanction, by royal decree, the grant of real credit by mutual associations of proprietors, provided that the estates of such proprietors have an aggregate value of not less than £200,000. The articles of such association, which shall be approved by the said decree upon the motion of the Minister of agriculture, trade, and industry, shall lay down the conditions to be satisfied by such proprietors, and shall fix the amount of guarantee (reserve) fund, of the working capital, and of the fund intended to secure the debentures. These debentures shall not exceed in amount one-half of the value of the mortgaged properties.

The associations of proprietors may not depart from the provisions of this law as regards the conditions on which loans are to be granted and repaid, and the issue and repayment of debentures.

3. Every institution shall, in the cities mentioned in a royal decree, establish agencies in such wise as to facilitate the grant of loans, and to promote the development of real credit business.

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* These are the two Acts which "enable certain companies to issue mortgage debentures founded on securities upon or affecting land, and to make provision for the registration of such mortgage debentures and securities (title of the principal Act)."

The chief provisions of these Acts will be found in abstract on pp. 98 and 282 of Vol. I, and as the Acts are easily procurable it will be useless to burden this volume with full details.

Three points are however either insufficiently or incorrectly stated in Vol. I:

(1) Section 7 of the Amendment Act expressly provides that 'all' the registered securities shall be charged with the payment of the principal *and* interest due upon 'all' the mortgage debentures; hence a mortgage debenture is secured not by a particular mortgage, but by the mass of mortgages. Moreover by section 15 of the principal Act all debentures rank equally "without any preference one above another by reason of priority of the date of any such mortgage debenture or otherwise." Section 7 of the amendment also provides that the registered mortgage securities on which the debentures are founded "shall not be applicable to or available for any other purpose than the satisfaction of such principal money and interest." These provisions give each debenture an equal and unassailable financial position.

(2) Section 31 of the principal Act provides that a list of mortgage debentures shall be kept by the company, and that in this list shall be entered the name, address, and description of the person to whom such debenture is issued. Every transfer of a debenture shall be by endorsement (section 37) and must similarly be entered in a transfer register (and presumably in the original register), and until such entry the transferee shall not be recognized by the company (section 38). It is, then, clear that the debenture to bearer, which is the principal form of land-mortgage debenture in continental Europe, is not recognized by the British law; the British debenture is a security granted to an individual and probably used as a more or less permanent investment; the continental debenture is a readily transferable security regularly quoted on the exchanges

(3) As each debenture is to order only, and the holder of each is known, the cancellation of any debenture secured by a mortgage which has been repaid is effected by merely giving due notice to the holder entered in the company's register.

† This law merely governs the grant of organized real credit by banks, coupled with the privilege of issuing land mortgage debentures. Real credit is of course granted by private persons in the usual way under the ordinary civil law, *See* Vol. I, pp. 78–82.

‡ This of course means that they can then *begin* to issue debentures, not that they can issue at once to the whole amount of £4,000,000. For, as will be seen hereafter, the debentures are based on the mass of mortgages held by the bank, and can never exceed in amount the aggregate existing value of such mortgages (*See* Vol. I, pp. 79–80, 96–98, 282–283, &c.)

The quantity of mortgages here mentioned, viz., those to the value of half the paid up capital, are to form a special reserve, to ensure that the debentures shall be more than covered by the mortgages in existance: *see* next two paragraphs of this section.

Corporate bodies, such as savings banks, Monts de Piété, &c., may, with the authorization of Government, undertake the duty of such agencies.

4. The objects of real credit are as follows:—

(*a*) to make loans on the first mortgage of immovable property up to the first half of their value, repayable by sinking fund annuities; *

(*b*) to acquire by assignment and transfer debts on mortgage or with preferential rights, on the conditions indicated above, such debts being made redeemable by annuities (*see* rules 6, 7 and 8 of the rules of business);

(*c*) to effect the above operations by means of the issue of debentures, the face value of which shall be equal to the amounts lent to borrowers;

(*d*) to make advances by cash credits secured upon mortgage in the same manner as ordinary loans (*See* rule 9 of the rules);

(*e*) to undertake gratuitously the collection of dues on public securities, treasury bonds, bank bills, drafts on Government or local funds, and interest and dividends due by companies guaranteed or assisted by the State, provided that the proceeds of such collections are to be carried to accounts current or placed in deposit for investment in land mortgage debentures or for payment of annuities already due.

Land mortgage debentures may be issued at 4, 4½ and 5 per cent.

The existence of prior mortgages shall not bar the acceptance of mortgages by the institutions, provided that the value of the former added to the amount of the proposed loan or to the amount to be paid by reason of assignment or transfer of a loan, or to the amount to the advanced on a cash credit, shall not exceed the half or three-fifths of the value of the property mortgaged.

5. Loans are considered as first mortgages when they are granted for the paying off of prior debts, so that the mortgage given to the bank becomes the first mortgage (*see* rule 5 of the rules).

An institution may even make a loan before the absolute transfer of a prior right or mortgage by the owner of such claim, a sufficient sum being retained by the institution to cover any possible loss by the transaction.†

6. Loans may be of two classes (section 4)—

(*a*) loans repayable by sinking fund annuities which comprise interest, a contribution for commission and the expenses of management, the amount payable as taxation, and the sinking fund quota; this last must be such as to pay off the loan in a period not less than 10 and not more than 50 years;

(*b*) advances on cash credits secured by mortgage within the limits and under the rules laid down in the rules of business. Such advances may not exceed one-half of the value of the mortgaged property.

Loans are to be made in land mortgage debentures, cash credits in cash.

The interest on loans shall be equal to that payable on the debentures issued against such loan.

The interest on cash credits shall be variable and determined by the institution.

The interest, annuities and contributions due to the institutions shall be paid in cash, as also that due by the institution to the holders of debentures.

7. As commission and for the expenses of management due to the lending institution, borrowers shall pay, together with the interest or annuity, an annual contribution not greater than 0·45 per cent. of the capital sum lent; the borrowers must also bear all the costs of effecting the transaction.

Borrowers must also pay to the institution a further contribution of 0·15 per cent. which, by royal decree, may be reduced to 0·10 per cent. on account of dues to the State for stamp duties and registration, and for any State charges on the contract including those on the issue and circulation of debentures.‡

In the case of advances the payment of taxes is regulated by the ordinary law.

8. The payment of the interest, annuities, contributions, State dues, and instalments of capital, due to an institution shall not be obstructed by any attachment.§

The sums due on behalf of the above, shall, *de jure*, bear interest from date of échéance.

In case of arrears, even of a single instalment, the institution may at once demand payment in full of all sums due to it.

The debtor is at all times permitted to pay off in advance the whole or part of his debt; in such case, however, he must pay the contributions mentioned in section 7.

These contributions are as follows:—

On account of the institution a single payment of 0·45 per cent. of the amount paid in advance; on account of treasury dues the 0·15 per cent. shall, if only part of the loan is repaid, continue to be paid annually on the full sum originally lent as though no amount had been repaid in advance; should

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* It will be noted that all loans are of necessity to be repayable solely on the sinking fund annuity system; no loan is legal under the law which is repayable in lump at the end of a fixed term.

† It is obvious that there may be difficulties in paying off prior creditors; the cancelment or transfer of prior claims can only be effected on paying off such claims; on the other hand the bank cannot advance the amount needed for such payment until it has obtained its mortgage which, again, cannot be safely accepted except as a first mortgage, that is, *after* the prior claims have been paid off. The difficulty is met in this law by section 13, viz., by the system of double deeds, the one conditional, the other final, as in the French 'Crédit Foncier.'

‡ The above 0·45 and 0·15 per cent. are *annual* charges, and are based on the "*capital sum lent*" (del capitale mutuato); hence they are not only heavy in themselves, but form an increasing burden in proportion as the capital is paid off by the sinking fund; *e.g.*, when the principal is reduced the one-half of that lent the above annual charges will equal 0·90 and 0·30 thereof. The 0·15 per cent. is a composition paid in lieu of all stamp duties, registration charges, and the costs of debentures, but has nothing to do with other general taxes, such as the very heavy tax 'sulla richezza mobile.'

§ *Cf.* the similar provision for the French 'Crédit Foncier.' The attachment here alluded to means legal attachment as by court order or injunction.

however the whole amount be repaid, the contribution shall be reduced to one-fourth of the aggregate annual payments which would otherwise have had to be made,* and it shall be payable in a lump sum together with the principal.

Should the advance repayment be made in cash, the debtor must, in addition to the above contributions, pay the interest due between date of payment and next drawing of debentures; but the institution may repay to the debtor any profit obtained by the temporary investment of the sum received from the debtor.

The contribution mentioned in paragraph 4 *supra*, is also due in all cases in which, by reason of failure to carry out the contract or for any other cause, the institution has the right to require the immediate repayment of its debt.

It is permissible for the institution to refuse payments on account of debts when such payments are less than the amount of one annuity.

Repayments in advance, whether in whole or in part, may be made, at their face value, in debentures which bear interest at the same rate as the loan under repayment.

Whenever the borrower shall have repaid an amount equal to one-fifth of the original debt, such debt not exceeding £20,000, he is entitled to a proportionate reduction of the mortgage amount as registered.† Where the debt exceeds £20,000 the above reduction *plus* one-tenth of the remainder may be effected. The above reduction shall be made upon presentation to the registrar of mortgages of a declaration by the directors of the institution duly certified by a notary.

9. The mass of land mortgage debentures as issued shall be guaranteed by the mass of mortgages accepted, and the assets represented by the loans shall be preferentially charged for the payment of the interest and principal of the debentures, but such preferential charge shall not give a debenture holder any right except as against the institution.‡

The debentures are detached from a stub with counterfoils and shall bear date § according to the order of issue. They may be issued to bearer or to order (nominative) but both classes may carry interest coupons to bearer.

In case of the loss of debentures to order the provisions of the rules of business will apply.

Where coupons to order are lost or destroyed, the issuing institution shall pay their value to the claimant thereof, after the lapse of five years from échéance, should they not meanwhile have been presented for payment.

The payment of debentures in circulation is effected by means of half-yearly drawings by lot of so many debentures as correspond in value to the aggregate of the contributions to the sinking fund due by borrowers during the preceding half-year *plus* the amount of any repayment of capital made in advance in cash during the same half-year.

If the institution has in circulation debentures of several rates of interest, so many debentures of each rate shall be drawn as correspond in value to the aggregate of the sums proceeding from the loans bearing a similar rate.

So far as regards the holders of debentures the sinking fund quotas will be considered as collected even though not collected,‖ and to this no exception is permitted.

All drawings shall be public. Debentures when drawn shall cease to bear interest after the expiry of the current half-year.

10. Debentures may be accepted in pledge as security for advances by any credit establishment, within the limits fixed by its articles. They may be received at four-fifths of their market value by the institutions for real credit, up to the amount of the fund set apart for such advances.

The national bank may, in extension of the powers granted by the law governing it, make advances on the deposit of land mortgage debentures and may discount bills bearing only two signatures, if to such security is added a deposit or transfer of the interest coupons of debentures, as provided by its articles in the case of State paper.

11. From the net profits derived from its real credit business, an institution must set aside not less than one-fourth in order to form a reserve, until such reserve shall have attained the amount fixed by the rules of business (section 28 *supra*).

The remaining profits shall be disposed of according to the articles of each institution.

12. (Relates to special methods of obtaining the position of first mortgagor: the section refers to peculiarities of the Italian civil law.)

13. If the institution decides to grant a loan, it shall enter into a conditional contract with the borrower which shall have effect when,¶ after registration of the claim, the certificate of the registrar discloses no prior mortgage or charge.

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* That is, one-fourth of the annual payment multiplied by the original term of the loan; *e.g.*, on a loan of 20,000 lire for 40 years, the *annual* payment of 0·15 per cent. would be 30 lire; for 40 years this would aggregate 1,200 lire: if the whole loan is paid off in advance, say in the tenth year, the aggregate remaining to be paid would be 900 lire, one-fourth of which would be 225 lire.

† Apparently this means that the debt will be considered as £16,000 instead of £20,000, so that there would be an important reduction in the annual charges mentioned in section 7. Or it may mean that the mortgagor is entitled to the liberation of one-fifth of his property from the mortgage: *see* the new rule in section 40 of the law of 1890 *infra*.

‡ Although a mortgage loan is issued solely in debentures (section 6) which, in fact, represent the loan, such debentures are not specifically charged on that particular mortgaged property, but only on the mass of mortgages; hence the holder of a particular debenture has no lien upon any specific estate, but only on the assets of the bank of which the whole mass of mortgages form part (*see* history of these debentures on pp. 48 and 49 of Vol. I; also pp. 79–80, 96–98, 282–83, &c., of the same).

§ This does not mean 'priority,' all debentures whatever their date, take equal rank as charges on the bank's assets, and share equally in case of liquidation.

‖ That is, for the purpose of withdrawing debentures, sums due, but not collected, will be considered as collected, *see* rule 36.

¶ Dopo che, &c.—Apparently this means that the conditional contract shall become final when the certificate discloses no prior claims. If such prior claims are discovered, it probably becomes null and void, as in the French 'Crédit Foncier.'

When such is the case the institution shall proceed to the execution of the fianl contract, and shall issue to the borrower, against his receipt, the corresponding value in debentures.

On the presentation of the copy of the final deed, the registrar shall, on the margin of the previous entry, note the payment with the issue of debentures.

For the purposes of the public taxes and of the payments due to the notary and the registrar, the (whole of the documents shall be considered as those of a single transaction, and the registrations as a single registration).

14. Mortgages registered in favour of an institution (for real credit) shall be valid notwithstanding the failure (bankruptcy) of the mortgagor, when registration has been effected not less than ten days before the order in bankruptcy has been published, even though the order places the date of stoppage of payment at some prior date.*

15. The registration of mortgages accepted by or transferred to an institution (for real credit) shall be renewed by registrars of mortgages as a matter of course.†

16. (The heirs and successors in any way of a borrower must notify their succession to the bank; failing such notification the bank preserves its rights against the original borrower.)

17. The funds of incapables, minors, married women, and, generally, all those required by the law, by agreement, or by will to be invested in mortgages, the purchase of immovables or otherwise, may be invested in land mortgage debentures.

18. The provisions of the Penal law relating to the offences of alteration, fraud, fabrication, or falsification of State securities, shall apply to land mortgage debentures.

19. Land mortgage debentures, the interest thereon, and cash credits shall not be distrainable.‡

20. The books and registers of an institution (for real credit), kept according to the articles thereof, and extracts from the same, shall form complete proof (*piena fede*) both against its debtors and against third parties.

21. For the recovery of its annuities an institution shall be permitted to proceed against its debtors in arrears by the same methods as those used by the State in the collection of direct taxes, so far as regards movables.§

22. (Omitted.)

23 and 24. (Provides certain modifications of the ordinary law in proceedings for expropriation; the only one of general interest is [23(*f*)] that the institution has in all cases of the sale of mortgaged property, whether the sale is the result of its own proceedings or those of third parties, the right to demand from the sale purchaser, the full amount of its claim with all expenses within 20 days; *Cf.* the French Crédit Foncier rule. Should the sale purchaser fail to comply with this condition, he is to be compelled thereto by every lawful process, including the resale of the property at his risk and charges. This provision is intended to evade the interminable delays caused "by the slowness of the ordinary law, the hair-splitting (sofismi) of the pleaders, and the dilatoriness (lentezze) of the judges" [Commentary of Professor Rabbeno].)

25. The privileges of procedure, &c., granted by the present law to favour business in real credit shall be equally granted when the property mortgaged belongs to districts, communes, or other public bodies.

26. The statements of real credit operations and of the progress of an institution shall be made public, according to the provisions of the rules of business (section 28).

27. Institutions granting real credit are placed under the supervision of the Minister of agriculture, industry and trade, who shall exercise such supervision in the manner laid down by the rules (section 28).

28. A set of rules to be approved by royal decree shall provide for the due carrying out of the present law.

It shall in particular provide for—

(*a*) the form and face value of the land mortgage debentures, which shall in no case be less than £4 in value;

(*b*) the rules to be followed in the issue of debentures, in their withdrawal, cancelment and destruction, and in the issue of duplicates in the case of debentures to order which have been lost;

(*c*) the quality and condition of properties accepted on mortgage; the rules for ascertaining their value, the necessity and special conditions for assuring mortgaged factories against fire;

(*d*) the methods and periods in which borrowers must inform an institution of any changes which may happen to mortgaged property, whether in the way of decrease of value, disturbance of possession, or injury to rights;

(*e*) the rules to be followed in opening cash credits, and the limits and chief conditions of advances.

(*f*) the rules for the investment of the reserve fund;

(*g*) the limits and methods of the Government supervision.

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* This alludes to certain provisions of the Commercial code in sections 708 and 709 thereof, by which fraudulent dispositions of property to evade creditors in bankruptcy are null and void, a rebuttable presumption of fraud arising when, subsequent to the date of stoppage of payment, pledges or mortgages of property are granted by the bankrupt.

† That is, it shall be the duty of the registrar to carry out the decennial renewal of registration required by the law without any application from the bank, so that the latter is relieved from all care in the matter, the responsibility being thus thrown on the registrar.

‡ *See* corresponding provision in the law of the French 'Crédit Foncier'; several of the Italian rules are obviously borrowed from the same law.

§ *See* extracts from the law of 20th April 1871, elsewhere translated.

RULES OF BUSINESS (24TH JULY 1885) UNDER THE LAW OF 22ND FEBRUARY 1885, ITALY.

1. *Authorization.*—Societies and institutions* desirous of permission to grant real credit, must present an application to the Minister of agriculture, industry and trade (with copies of the resolution of the general meeting, articles, &c.; the Minister may also demand any other documents necessary to satisfy him).

2. A royal decree authorizing the grant shall issue on the motion of the Minister after it has been ascertained that the requirements of the law have been fulfilled.

The issue of land mortgage debentures shall be authorized by a separate decree when the bank has proved its possession of mortgages equal in value to half of its paid up capital.

3. With the application for leave to issue debentures must be sent in a list of the mortgages held by the bank (giving all the chief details of each mortgage).

4. The Minister has the right to inspect the agreements in case of all loans called in (denunciati), whether in possession of the bank or any public official (*e.g.*, a court).

5. Mortgage loans in cash up to the amount of half the capital may be repayable by annuity or in lump. If repayable by annuity the provisions of section 7 of the law relating to taxes, stamp duties, &c., are applicable; they are otherwise governed by the general law.

6. *Business.*—Banks for real credit can only lend on immovable property which furnish an income accepted by the bank as certain and lasting for the period of the loan.

Immovable property used for industrial purposes can only be accepted at its actual value independently of its special use.

7. Factories mortgaged for a loan must be insured against fire at the expense of the borrower.

The loan deed must contain an assignment to the bank of the right to receive direct the insurance amount; this assignment must be notified to the insuring office.

Banks may require that the insurance policy shall be made out in the name of the bank, and that the premia shall be payable by it. In such case the premia shall be added to and paid with the annuity, due by the borrower.

Any sums payable by the insuring agency as an indemnity for damage or destruction, and those payable by reason of a forced acquisition of the land for public purposes or of a servitude imposed thereon by the law, shall be paid over to the bank and credited towards the debt as an advance payment.

Any indemnity paid by an insurance agency may, with the consent of the bank and on due security, be handed over to the debtor for the purpose of repairing the loss or damage.

The above conditions apply to all other classes of insurance effected on immovables.

8. Every change which brings with it a decrease in the value of the estate, as also every act by third parties which disturbs the debtor's possession or disputes his rights, shall be notified by the debtor to the bank within one month of such change or dispute.

In such cases the bank may, if necessary, proceed to a fresh valuation of the property at the debtor's expense, and may demand a further mortgage of the payment of the loan as per section 1980 of the Civil Code and may also proceed against the debtor as per section 1234 of the said Code.

9. (Mentions the general law governing cash credits and cheques, viz., Chapters XI and X, respectively of the Code of Commerce.)

10. Real credit banks authorized by this law must prohibit by their articles the acquisition by themselves of immovable property except such as may be needful for the location of these offices, and such as they necessarily acquire as security for loans already entered into.

Whenever a bank acquires immovable property as security for a loan, whether by assignment or by purchase at auction, it shall sell the same within 5 years.

11. *Issue of debentures.*—Loans are made in debentures. Real credit banks may only issue such debentures for a face value equal to that of their loans granted under section 4 (*a*) and (*b*) of the law.

The banks may undertake the sale of the debentures on account of the borrower, with or without the charge of commission.

12. Debentures may issue at 4, 4½ or 5 per cent. interest in separate series.

13. If debentures are contemporaneously issued at more than one rate, a borrower may select the rate at which the debentures for his loan shall issue. The interest payable by him shall equal the rate payable on the debentures.†

A debtor may demand a fresh loan at a lower rate in order to pay off his prior loan at a higher rate. The banks shall determine the conditions of such conversion.

14. Interest on arrears (section 8) shall not exceed the legal interest as per section 1831 of the Civil Code.

15 to 17. (Debentures shall be taken from a stub; shall be serially numbered, dated, signed, and stamped; shall be of a pattern approved by the Minister of Agriculture, &c., and shall each be £20 in value. But they may be exchanged for coupures, of £4 each, bearing the number, &c., of the original debenture which shall be kept in deposit.)

18. Debentures may be to bearer or to order; the latter may be furnished with interest coupons to bearer. The coupons must bear the serial number of the debenture. A new set of coupons shall be issued when the prior set has been exhausted.

19. Debentures to order may be transferred to other names, and both those to order and those to bearer may be transformed under the following rules into debentures of the other class.

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* The word 'bank' will be used in this translation to mean any society or institution granting real credit.

† Debentures issued at the lower rates of interest may be saleable below par; hence a loan issued in such debentures may be no more profitable to the borrower than a loan in debentures bearing a higher rate.

20 to 24. (Contain rules for transfers and transformations, and are of an ordinary character, not requiring translation.)

25. Every bank must keep a register for such transfers and transformations.

26. Declarations relating to the loss, theft, or destruction of debentures to order with coupons also to order, must be made to the bank of issue and to the office where the coupons were ordinarily paid, by the owner or his representative, with a request to suspend payment of the interest and to issue a duplicate.

27 to 29. (Advertisement to be published of the alleged loss, &c., with a notice that within six months a duplicate will be issued unless objection is lodged into the bank; at the end of that time the notification is to be carried out, unless such objection is lodged, when the bank shall suspend action pending a court order or the agreement of the parties.)

30. Where the lost, &c., debenture to order carried interest coupons to bearer, the above rules shall apply but in no case shall the bank suspend payment of the coupons.

The duplicate debentures shall be deprived of the interest coupons up to the date of the coupons on the lost, &c., debenture.

31. (Omitted.)

32. When once a duplicate has been issued and the old one cancelled (*i.e.*, the stub from which it was originally taken) no further objections will be admitted, and no orders or injunctions will affect the bank.

33. (Omitted.)

34. Every proceeding taken in the matter of the loss, &c., of a debenture to order shall be entered in a list posted up in a public place in the chief office of the bank and in every sub-office or agency, together with details of the debentures in question.

35. In case of the loss, theft or destruction of debentures to bearer, sections 56 and 57 of the Code of Commerce are applicable.

36. *Repayment of debentures.*—At the beginning of every half-year as many debentures shall be repaid at par as correspond to the amount of the sinking fund due—even though not actually paid—by borrowers during the previous half-year *plus* (1) the amount paid in cash during the half-year as repayments in advance including capital recovered by the bank by proceedings in expropriation or covered by properties bought in by the bank; (2) the amount of any losses.

37. With this view the bank must within eight days of the close of the half-year prepare a statement in form A showing for each mortgage loan (1) its original amount; (2) the year of the agreement; (3) the year in which repayment would be complete; (4) the amount of a half-year's sinking fund dues; (5) the amount repaid in advance (during the half-year) in debentures, if any; (6) the amount repaid in advance in cash, if any; (7) the losses incurred, if any.

A statement of this nature must be drawn up for each series of debentures.

A copy of the above statement, duly signed, is to be sent to the Minister of agriculture, &c., but the several loans are to be indicated not by the names of the debtors but by their serial numbers in the register or ledger.*

38. The Minister has the right of verifying the correctness of the above statements.

39. Columns 5, 7 and 8 of form A when added together show the value of the debentures to be drawn.

40. Debentures are drawn by lot for repayment. (The rules are of an ordinary nature; all numbers are kept in a sealed wheel, to which are added, in presence of a Government delegate, the numbers of those issued in the half-year; the Government delegate must also be present at the drawing, which is to be public.)

41. The debentures drawn will, on production, be paid in cash at par in the following month, and will bear no interest subsequent to that of the half-year in which the drawing takes place.

42. Debentures presented for payment must bear the interest coupons not yet due. The value of any missing coupons will be deducted from the value of the debenture, but the bank will in that case pay the coupons whenever presented.

43. (Repaid debentures are to be at once cancelled, and eventually destroyed in presence of the Government delegate.)

44. (Omitted.)

45. Debentures paid into the bank as repayments in advance and any others which have passed out of circulation, shall at once be cancelled and eventually destroyed.

46. Interest coupons shall be payable half-yearly, but may also be issued for quarterly payment.

The debenture need only be presented for the payment of interest when it is made 'to order' and with coupons 'to order.' In such case the coupon to be detached must be endorsed by the payee.

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* Form A is as follows :—

Serial number.	Required amount of the loan.	Year of contract.	Year of close of payment.	Amount due as half-year's sinking fund.	Amount repaid in advance in debentures.	Amount repaid in advance in cash.	Losses made good.	Value of debentures to be drawn (5+7+8).
1	2	3	4	5	6	7	8	9
Total ...								

47. Coupons paid must be marked with a cancelling stamp.

48. (Omitted: relates to loans made in cash.)

49. *Reserve fund.*—The one-fourth of the net annual profits, set aside for the formation of a reserve, shall be deducted from the profits in the case of banks with a limited issue of debentures until the reserve shall reach the amount of at least one fifth of the paid-up capital.

In the case of other banks (where the issue of debentures is not limited) the reserve must accumulate till, together with any guarantee fund, it shall reach the sum of one-tenth of the value of debentures in circulation, and shall be maintained at that proportion. The reserve fund shall be invested in securities issued or guaranteed by the State, and in land mortgage debentures issued by some other bank.

50. *Government supervision.*—Banks which grant real credit are, on that side, placed under the supervision of the Minister of agriculture, industry and trade, who exercises it by means of delegates.

51. The delegates have the right of inspecting all the books and documents relating to the grant of real credit.

52. The banks are bound to despatch to the Minister the resolutions of their directorate within eight days after each meeting.

The Minister can, upon reason stated, declare within ten days of such despatch the cancelment of any resolutions which may be contrary to law or to the rules, giving notice at once of such declaration.

53. The supervision shall be so exercised as to prevent the banks from undertaking any operations other than those permitted by the law. The supervising delegates are specially bound—

(*a*) to verify the existence of as many mortgage loans made in cash as represent the half of the paid-up capital, as per section 1 of the law and the present rules;

(*b*) to take care that the debentures are only issued on account of mortgage loans and to a corresponding value;

(*c*) to verify the correctness of the entries in the statements referred to in rules 37 and 48, and the value of the debentures to be drawn;

(*d*) to be present at the placing of debenture numbers in the wheel and at their withdrawal, as per rule 40;

(*e*) to ascertain the cancelment of all debentures drawn by lot, or paid in by way of advance repayments, or withdrawn for any other reason;

(*f*) to be present as required by rule 43 at the destruction of all cancelled debentures;

(*g*) to ascertain at the end of each half-year the value or cash loans and of charged debentures as per section 1 of the law and rule 48.

The Minister may also delegate a public official, chosen, at the request of the Minister, by the prefect of the province (Collector of the district), to be present at the operations mentioned in (*d*) and (*f*).

54. Land credit banks must send to the Minister of agriculture, &c.—

(1) a statement of their financial position at the end of every two months;

(2) the annual balance sheet at the close of every year;

(3) a special statement of the loans in arrears and in dispute at the close of every year.

These statements shall be made out in forms C, D and E.

55. (Omitted.)

56. A royal decree shall determine the annual contribution to be paid by each such bank as costs of supervision.

LAW RELATING TO REAL CREDIT (ITALY), 17TH JULY 1890.*

1 to 26. The bank is to have a capital of £4,000,000, of which half, or if the existing banks do not join it, three-tenths are to be paid up before beginning work; the remainder by instalments.

The privilege of the exclusive exercise of real credit under the special laws is granted to it for 15 years, the rights of existing banks which grant real credit under the laws being saved. The sole duty of the bank is to be the grant of real credit, loans being financed by the issue of land-mortgage debentures.

The own capital of the bank is to be invested in mortgages granted in cash under the rules of the law of 1885, and it shall thereupon issue debentures; the total issue of the latter shall not exceed 10 times the paid-up capital. Capital not immediately laid out in loans shall be invested only in State paper, land mortgage and agricultural debentures (*see* Law of 1887 and rules thereon for these last securities in the chapter on 'Crédit Agricole' in this volume). The guarantee and reserve fund shall be wholly invested in mortgage loans made in cash without any corresponding issue of debentures, in cash, or in the securities mentioned in the preceding sentence.

The annual net profits are to be divided as follows: 5 per cent. to the reserve till the latter reaches one-fifth of the paid-up capital; a dividend to the shareholders, not exceeding 6 per cent.; 25 per cent. of the remainder to the State, another 25 per cent. to the reserve until it reaches the limit mentioned, and the remainder as shall be decided by the general meeting.

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* This is the newest Italian law; that of 1885 did not meet with full success, and it was decided to attempt the grant of real credit throughout the kingdom by a single institution, founded by private capital, but with additional privileges, safeguards, and supervision; but also with the proviso that if not successfully started both as to capital and the grant of loans, within three years, its special privileges should cease.

The leading idea was that the new bank should, if possible, absorb the existing eight land banks, and take, in Italy, the place of the great Crédit Foncier in France; for this purpose the law grants it the exclusive right, save that of the existing banks, of exercising organized real credit under the special laws (1885 and the present one) throughout the kingdom for 15 years, its operations, in general, following the provisions of the law of 1885 (*q.v.*). It is believed that the anticipations of the legislature have not been realized.

At the same time the opportunity was taken of making new provisions for land banks in general, supplementary of the existing law. (*See* Vol. I., p. 82.)

The law relating to the new bank is not of sufficient interest for translation; a mere abstract will therefore be given of that part. Some of the sections supplementing the existing law will be translated in full.

The whole assets of every description guarantee the debentures, but debenture holders can proceed only against the bank.

The amount and method of Government supervision (sections 14–19) shall be determined by the decree authorizing its foundation, read with the provisions of the law of 1885. Sections 15 to 19 provide various safeguards for the inspection of and resort to the Government authorities, notably the right of the Minister of agriculture, trade, &c., to deal with breaches of the law or articles by the bank officers, and that of persons holding 5 per cent. of the debentures to obtain an enquiry.

The existing land credit banks may—but are not bound to—unite with the new one, which will then assume the loans and debentures of the other banks as its own.

GENERAL PROVISIONS.*

27. The following provisions shall be applicable to the national bank for real credit, and to the various real credit banks in Italy which operate under the law of 22nd February 1885.

28. (Relates to precautions necessary when mortgages are assigned to the bank; the transferer must signify that he has transferred all his rights to the bank; notice of this must be sent to all other registered creditors of the property, and duly published, and if within 40 days of such publication no opposition is made to the transfer, any subsequent objection shall be absolutely barred.)

* * * * *

34. Where a debtor is in arrears with his half-year's dues, the bank may, before proceeding to coercive process, demand to be placed in possession of the property, the debtor or other person lawfully in possession being summoned before the court having jurisdiction. The order of the court thereon shall be final and without appeal.

During such possession the bank shall, notwithstanding any attachment or hypothecation resulting from the claims of other creditors, collect all the rents and produce of the property, and, after deducting the expenses of management and the rates and taxes, shall apply them in satisfaction of the arrears and costs then or thereafter due.

The bank shall draw up an annual account of the same.

Such possession shall cease should the bank or any other creditor institute proceedings for the sale of the property by a court attachment, or when the arrears are satisfied.

* * * * *

36. When an estate mortgaged to a bank for a loan has been forcibly sold, the purchaser may take the benefit of the bank's loan to the former owner, provided that within 15 days from the date of confirmation of the sale, he shall pay the annuity due together with all costs, and provided that the price at which the estate was sold was above two-fifths of the amount of the debt still due to the bank, or that the purchaser pays down such amount as shall reduce the debt secured by the property to three-fifths. The purchaser in such case undertakes the obligations of the former borrower.

Should the purchaser not accept the above conditions, the rules contained in section 23 (*f*) of the law of 22nd February 1885 shall be applicable.

37. (The banks may issue debentures at 3½ per cent. A bank may stipulate with a borrower that the tax 'di richezza mobile' † chargeable on the interest of the debentures issued against his loan, shall be payable by him.

This extra charge shall only be payable when the debentures are issued at 3½, 4 or 4½ per cent.

38. The banks may always withdraw from circulation and repay their debentures, whether drawn by lot or not, and issue in their place debentures at a lower rate. Repayment shall in such cases always be at par.

When such conversion includes all the debentures of a particular series, all the debts against which such debentures were issued shall, within two years, be granted a corresponding reduction of interest; if only a part of such debentures are converted, a proportionate reduction shall be granted to all the debts which correspond to all the debentures of the said series.

* * * * *

40. In amplification of the right granted in the last paragraph of section 8 of the law of 1885, borrowers shall have the right of obtaining the liberation from the mortgage of one or more of the specific items chargeable with the mortgage in proportion as repayment is effected, provided that the remaining items properly secure the rights of the bank for the remainder of the loan.

41. If within one year from the date of the present law, the new bank shall not have regularly begun to grant real credit, the conditions of the law relating to the new bank, and the limitation of the area of operations of the other banks shall be of no effect.‡

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* These apply not only to the new bank, but also to all other banks granting real credit in Italy, under the law of 1885: they modify and supplement the provisions of that law.

† This is a very heavy tax not merely on incomes, but on the proceeds of all deposited or funded capital; it amounts to as much as 13·70 per cent., *e.g.*, on State paper paying 3½ per cent. interest, about ½ per cent. of the interest would be deducted for this tax, so that the investor would get only 3 per cent.; similarly the holder of a debenture bearing 3½ per cent. interest would receive only 3 per cent. Hence in order to attract purchasers of the debentures issued at low interest, the new law provides that the borrower may be required to pay the tax, a condition which adds ½ per cent. per annum to the cost of his loan.

‡ Certain rules in accordance with the law have also been issued by royal decree of which the following alone are extracted:—

19. At the head-quarters of the (new) bank a royal commissioner shall be appointed on the motion of the Minister of agriculture, &c; for the purpose of exercising the supervision provided by the law of February 1885 and its rules, and by the law of July 1890 and the present rules. The bank must pay to the treasury on account of the costs of supervision, such annual sum as shall be ordered by decree.

20. Besides the special rules to be laid down in accordance with section 14 of the law of July 1890, the rules for supervision laid down in Chapter VI of the rules of 24th July 1885 shall apply; the Minister of agriculture, &c., shall always have the right of ordering extraordinary inspections of the bank.

21. The commissioner shall see that the conditions of section 3 of the law are observed with regard to the gradual payment of the capital and the proportion between the same and the debentures issued. At every new issue of shares a statement shall be sent to the Minister showing the value of debentures in the safe and those in circulatio ı.

LAW RELATING TO THE MORTGAGE BANK OF CANTON BERNE (SWITZERLAND).*

1. The foundation capital of the bank consists of contributions by the State which shall never fall below £280,000.

This capital shall be augmented—

(1) by repayments made on account of State paper;
(2) by contributions from the domain's office.

2. The business of the bank comprises—

(1) loans on mortgage;
(2) advances upon deposit of mortgage deeds, and the purchase of good Swiss securities;
(3) the receipt of deposits at interest.

The grand council (of State) may extend the operations of the bank.

(The bank is also charged with other financial duties connected with the administration of the State).

3. *Mortgage loans.*—The bank will only lend on first mortgage of immovable property within the Canton, and, in general, only up to two-thirds of their value as ascertained by survey.

(In special cases loans may be granted up to three-fourths of the value.)

The bank will, above all, devote special attention to small proprietors and to small loans, and to cases where the borrowers intend to apply the loans in cancelment of prior debts.

The maximum loan is fixed at £2,000.

4. The bank will grant loans (1) on the execution of mortgage deeds, (2) upon the transfer to itself of mortgages already entered into.

5. (The candidate for a mortgage loan must furnish an exact statement with full details, of the borrower, the purchase value, extent, class of cultivation, charges, &c., of the property, the insured value of the buildings, the original price of the property, the survey value of each item, and any charges or burdens [sections 2103, 2121, 2135 of the French Civil Code]† on the property; in surveyed communes survey numbers and areas are to be entered).

6. The candidate must send to the council of the commune in which the property is situated the above statement together with an application to the bank showing the amount and proposed outlay of the loan sought for.

The council will complete the above statement by a certificate—

(1) that the candidate is in possession of full civil rights; should this not be so, the name of his guardian must be entered;
(2) that the property has been truly described; should this not be so, or if the council is aware of other burdens thereon, it must correct or complete the description; it must also add, when necessary, whether the property is especially exposed to damage or loss of value by reason of natural accidents;
(3) that the property is not burdened otherwise than by certain family charges; any error or omission on this point must be corrected;
(4) that the candidate is believed in the commune to be the owner of the property;
(5) that the survey value is exactly entered and that since the last valuation for the land tax nothing has happened to materially diminish the value of the property. Should such diminution have occurred the present actual value should be stated;
(6) that the certificate of the council has been verbally transcribed in the register kept for the purpose in the commune.

7. The commune is responsible to the bank for the consequences of any fraud or negligence by the communal council in the carrying out of section 6.

8. If the property is situated in more than one commune the candidate must obtain a similar certificate from each such commune.

9. The candidate will transmit the above statement and certificate to the registrar of mortgages, who will add thereto a further certificate showing precisely—

(i) the title of the candidate and the date of its confirmation. The registrar must compare the details of the statement relating to the property and of the communal council's certificate with the land registers, and note in his certificate any differences. If there are such as to cause any doubt, he must address the communal council for the clearance of such doubts;
(ii) any outstanding mortgage charges or rights of third parties chargeable on the estate, with the names of such creditors or parties, and the nature, date, and amount of such charges.

The registrar is responsible for any fraud or negligence on his part in carrying out the above provisions.

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* *See* pp. 85–87 of Vol. I. This is a State bank pure and simple; the Canton, with a population of about 537,000, has a complete and independent government, with all the paraphernalia and staff of a large State; hence its ability to work a State bank. The use made of, and the responsibility thrown on, the communes and the registrar of mortgages, are noticeable.

† Section 2103 relates to preferential rights (privileges) over immovable property, due to the vendor of such property for the price paid, to any one who has lent the money for the purchase thereof, to architects, contractors and workmen employed to construct a building, canal, &c., and to any one who has lent money to pay such workmen.

Section 2121 relates to 'hypothèques légales,' or claims at law on behalf of married women over their husband's goods, of minors and incapables over the goods of their guardians, and of the State, communes and public institutions over the goods of their collectors and cashiers (or treasurers).

Section 2135 lays down conditions regarding 'hypothèques légales' of the first two classes.

10. The candidate shall then transmit the various documents through the registrar to the office of the bank, which shall submit them with a report to the directors.

11. The registrar must draw out the mortgage deed (for the candidate) in proper legal form and send it to the bank.

12. The amount of the loan is paid to the borrower through the registrar of mortgages. That officer will immediately copy the mortgage deed into the mortgage registers, and will take heed as to the liberation of the property from all prior mortgage claims or rights, and as to the carrying out of any conditions attached to the loan, after which he will send the mortgage deed with all necessary certificates to the bank. The registrar is responsible to the bank for all consequences resulting from any delay in the transcription of the deed, for the due liberation of the property from any prior rights or concurrent claim which might affect the bank's mortgage, and, in general, for any deviation from the conditions laid down.

13. Mortgage deeds in favour of the bank are not subject to the decennial renewal of registration required by section 2154 * of the French Civil Code, and the mortgage will retain the rank which it took at registration.

14. Mortgages and charges (in existence) may be assigned to (and accepted by) the bank when they present the security required by the present law, and when the mortgagor agrees to pay the capital and interest as therein laid down. A mortgagor may demand that his mortgagee shall, upon the expiry of the notice period entered in the deed, assign the mortgage to the bank.

For an assignment of this nature it is only necessary that the mortgagor should address to the bank an application showing precisely the nature of the mortgage, &c., proposed to be assigned, together with the name of the creditor, the immovables pledged as security for the loan, the amount of such loan, and the value of each item as entered in the tax registers. The communal council must add to this application a certificate as to the correctness of the entry regarding the survey valuation. Where buildings are insured against fire, the secretary of the prefect's † office must certify as to the correctness of the entry relating to the assurance.

15. The rate of interest charged by the bank shall exceed by at least 0·25 per cent. the rate payable by the bank upon deposits.

16. The bank shall charge on each loan a commission payable once for all, for the cost of enquiries relating to the loan.

17. Loans made by the bank are repayable with interest by the annuity system, each annuity (including interest) being not less than 6 per cent. of the loan. The debtor may at any moment pay up the whole or any part of the capital.

Interest at the rate of 5 per cent. will be charged on arrears (*i.e.*, sums not paid within 14 days of due date).

18. The bank can only require the (immediate) repayment of a loan in full in the following cases :

(1) when the debtor has failed to pay one or more of his instalments within three months from the date when notice of the first step in proceedings against him, has been duly notified to him;

(2) when the property has been alienated without its consent;

(3) when the bank has reason to suppose that the property has so diminished in value that it no longer presents the security required by section 3, and when the debtor has failed, within three months after notice, to increase the security as required, or when such increased security has not been certified to by a declaration of the communal council;

(4) when the property is either wholly or partly the object of a sale at law.

In cases (1), (2) and (4) the repayment must be made within three months after notice; in case (3) the three months time allowed for improving the security shall serve also as the period of notice.

19. The communal council is responsible to the bank for loans granted by the bank, to the amount of the survey valuation of the property situated in the commune unless the commune has, under section 6 (5), placed a lower value on the property, in which case the responsibility of the commune extends only to such lower sum.

20. If the proceeds of a property or part thereof sold at law do not attain the amount of the survey valuation as stated at the time of the contract or the amount estimated by the communal council, and the bank thereby sustains loss, it may require the commune to pay up the whole amount of the debt, such debt being then assigned to the commune as creditor. In such cases a court notice may be served on the commune before the sale is finally confirmed, so that it may, if possible, safeguard its interests by a higher bid.

The bank may also transfer its position as creditor to the commune and require from it the whole payment of its debt when it has not been found possible to sell the whole or part of the property by auction.

The commune can, however, never be required to pay up more than one annuity in arrears and any annuities that may have fallen due since the commencement of proceedings in addition to the balance of the principal still owed, and the costs of the proceedings. The commune has its remedy against the members of the communal council if there has been fraud or negligence on their part.

21. The rights granted by the preceding sections are not enforceable against the commune if the loss sustained by the bank is due to an accidental decrease in the value of the property under mortgage, or if it has been caused by a general fall in the price of immovable property.

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* This is as follows :—

"Registration validates mortgage claims (hypothéques) and preferential rights (privileges) for a period of 10 years from the date of such registration ; it ceases to have effect if not renewed before the expiry of such period."

† Presumably the insurance office is a State institution, with the Prefect (Collector) as chief insurance agent.

Nor can they be enforced against the commune if the latter or the communal council has notified to the bank, with due proofs, any decrease in the value of the property, and if the bank has thereupon failed to send to the debtor, within one month, the notice contemplated in section 18 (3) and the final notice to repay the debt, and has not followed up such notices (by proceedings) after the expiry of three months.

22—26. (Special provisions for certain districts; of no general importance.)

27. The investments and advances contemplated by section 2 (2), shall be exceptional and temporary and only when there are idle funds which cannot be employed under section 2 (1), (mortgages).

28. The bank will receive deposits, as funds may be needed, and will pay interest thereon. The minimum deposit shall be £8. The bank will undertake the payment (for the depositor) of the public taxes * due on such deposits.

29. Temporary deposits up to a sum of £8,000 may be received when required for the needs of the bank.

30. The funds of minors and incapacitated persons (trust funds) may be invested in the bank (section 268 of the Bernese Civil Code).

31. The funds of the State in general and the assets of the bank in particular are pledged as security for obligations contracted by the bank in accordance with the present law.

32. The bank is placed under the supreme supervision of the director of finance and the executive council (of the State).

Its administration is entrusted to a board of fifteen members appointed by Government. The executive council appoints the president and vice-president from the members of the board, which then nominates its secretary.

A committee of five members of the board attends to the details of business.

* * * * *

38. The grand council (of the State) shall issue rules of business for carrying out the present law, especially with reference to the formalities and securities required in the granting of loans, the rules for the administration of the bank, and the powers and duties of the several bodies and functionaries.

RULES OF BUSINESS OF THE MORTGAGE BANK OF CANTON VAUD (SWITZERLAND).†

LOANS.

* * * * *

2. The bank makes loans as follows:—

(1) On mortgages, repayable by annuities in such wise as to extinguish the debt in 9 years at least and 53 years at most;

(2) On mortgages of a term not less than 5 years, the repayment of which can only be required at the expiry of the term or afterwards upon notice given one year previously;

(3) On the pledge of mortgage deeds of property within the Canton or of land mortgage debentures issued by the bank; such loans shall not exceed one year in duration.

3. The capital of the bank shall preferentially be devoted to loans on agricultural property, and loans repayable by annuity will be favoured.

4. Every application for a loan shall be at once entered in order of date in a special register.

5. (Requires the entry of certain details in the application, including a statement of the actual income derived from the property; it must be accompanied by an extract from the latest survey accounts, and a certificate from the register of real property.)

6. The bank will only accept mortgages on properties yielding a permanent and certain income.

It will not accept a mortgage on an undivided property unless the mortgage be granted over the whole of such property and unless all the co-sharers join in such mortgage.

7. Loans on mortgages shall not exceed three-fourths of the value of the property offered as security.

The value shall be determined by the survey valuation or upon examination by experts. If the security offered consists of buildings, the sum lent shall not exceed two-thirds of the amount of the fire assurance.

Loans on vineyards are limited to two-thirds of the survey value when the experts' valuation is above that amount, and to two-thirds of the experts' valuation when below the amount.

Factory buildings shall only be estimated at their actual and independently of their industrial value.

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* *Cf.* the tax on 'la richezza mobile' in Italy, a very heavy (13·70 per cent.) tax.

† *See* Vol. I, pp. 87–88. The abstract given in those pages of the articles of the bank is sufficiently full to permit of dispensing with a regular translation, but some of the rules of business (reglement) which are appended to the articles may be useful. Only a few of the rules are given, viz., those relating to loans and debentures.

Mines, quarries and peat-bogs shall not be included in the valuation for the loan.

8. The valuation shall be made upon a consideration both of the net income and of the sale value.

9. Loans shall not be less than £12, or contain any fraction of £4.

* * * * *

14. When loans are repayable by annuity, the annuity shall comprise both interest and sinking fund, at the rates settled by the contract.

The annuity shall be fixed, and does not diminish as the capital is paid off, but as the interest is calculated each year on the amount of capital still unpaid, the proportion of the annuity allotted to the sinking fund payment increases as that due for interest decreases.

15. (Penal rate due on arrears.)

* * * * *

19. The total or partial repayment of a mortgage loan must be preceded by at least one month's notice. But the bank does not waive its right to the full term of such notice as granted by the law.

*Debentures.**

20. The bank issues debentures bearing interest and known as 'Land mortgage debentures of the Vaudoise Cantonal mortgage bank.'

21. Guardians, trustees and managers of properties under judicial administration may, without further authorization, invest their trust funds in these debentures.

* * * * *

24 to 26. [The debentures are personal (to order) and to bearer, at the choice of the lender, and are taken from a stub with counterfoil.

Personal debentures are transferable by endorsement; such transfers must be registered in the bank, which, however, is discharged of responsibility on payment to the person presenting the document, and is not answerable for the regularity of the transfer. Debentures to bearer are transferred by simple change of hands.]

27. Debentures presented for repayment must be accompanied by the unpaid interest coupons; the bank will retain the value of any coupons not so presented.

28 and 29. (Holders of debentures advertised for repayment must present them for the purpose; if repayment is not claimed within 5 years of echéance, the amount will lapse to the bank.)

30. The state collectors (Récéveurs de l' État) and bank agencies are obliged (1) to receive deposits for the purchase of debentures, (2) to pay the interest coupons: they must in such matters conform to the bank's rules.

31. The above collectors and agents will deliver to depositors a temporary receipt signed by themselves and taken from a stub; this, within 20 days, will be exchanged for regular vouchers.

LAW FOR THE ESTABLISHMENT OF LAND IMPROVEMENT BANKS (PRUSSIA).†

1. Land Improvement Annuity Banks may be established for the following purposes, viz.:—

(1) for the development of agriculture, especially by means of drainage and irrigation works, by the making and improvement of roads, by the conservation of forests, by the fitting of waste land for cultivation, and by the undertaking of new agricultural enterprises;

(2) for the making of embankments;

(3) for the laying out, widening, and upkeep of dykes, and for the works necessary for their safety and improvement;

(4) for the laying out, fitting for use, and upkeep of water works and reservoirs, and for the restoration and improvement of water-ways and other navigable works.‡

2. The banks are institutions of the Provincial unions.§ Their organization and management are regulated by articles.

3. The establishment of a bank depends upon the decision of the Provincial Council concerned.

The operations of a bank may be restricted to one or more of the objects mentioned in section 1.

4. The bank will grant loans either in cash or in debentures issued by the bank. These debentures shall be issued 'to bearer,' and shall bear the title of 'Agricultural annuity debentures.'

The face-value of all the debentures issued must never exceed the amount of the loans granted.

If a loan is granted in cash, the bank may issue debentures to the same amount. Any premium obtained by such issue shall be paid over to the reserve fund (section 47).

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* These do not seem to have any specially privileged position or to be based on any specially charged security, as are the Pfandbriefe of the German Landschaften, or the English land mortgage debentures under the special Acts (*q.v.*).

† Ländeskulturrentenbanken; *see* Vol. I, pages 63–65.

‡ The commentary states that by the 'Wasserläufen' and 'Sammelbecken' of the text are intended pumping stations and water works for places insufficiently supplied with water.

§ It will be noticed that the banks are official; the Provincial unions are those of East Prussia, West Prussia, Pomerania, &c.

Debentures shall only bear the same interest as that paid by borrowers to the bank.*

5. Loans shall not be called in by a bank unless under the following rules :—

A bank has the right, upon six months' notice, to call in a loan or the unpaid balance thereof—

(1) if the debtor fails to fulfil his obligations under the articles and under his contract after due notice issued to him by the directors;

(2) if the mortgaged property or any part thereof comes by decree under attachment, management, or sale, or under any similar proceeding, or when the legal validity or priority of the mortgage is affected;

(3) if the mortgagor becomes bankrupt;

(4) if the successor to the estate declines to accept the request of the directors that he will undertake the personal responsibility of the original borrower.

The interest payable by a borrower shall be at most (mit höchstens) four and-a-half per cent., and the sinking fund payments at least one-half per cent. annually. The interest payable on the full nominal value of the loan shall continue to be paid notwithstanding the gradual reduction of the loan amount through the operation of the sinking fund, such portion of the interest as is not necessary as interest being paid to credit of the sinking fund.†

It is not necessary that every class of loan shall be repayable by the above system of amortization.

The interest and sinking fund contribution together form the annuity payable by the debtor.

6. In order to secure the loans, the annuites and additional payments shall be secured by mortgage upon profitable agricultural or forest estates.

Loans on such properties shall be considered secure when they do not exceed twenty-five times the amount of the net survey-income (Katastral-Reinertrages) as estimated by the latest valuation for the land tax (Grundsteuer-Einschätzung), or 50 per cent. of the value of the estate as estimated by a valuation of the landlord, of a land bank, or by a special valuation of the bank.

7. Should the value of the property have been estimated by a special valuation by the bank, and should a loan thereon be granted for the carrying out of an enterprise which has for its object the improvement of the agriculture of the property or of a part thereof, the *plus*-value produced by the undertaking shall be taken into consideration. Such *plus*-value must be distinguished from the value of the property when in its original condition.

The security of the loan may also be taken as sufficient when its amount falls within 50 per cent. of the total value of the property *inclusive* of the *plus*-value to be obtained through an improvement, or within three-fourths of the original value as ascertained by a valuation by the bank at the time of the loan.

So much of the loan as does not fall within three-fourths of the original value of the estate, or within twenty-five times the net income as per survey, may only be paid after the regular execution of the undertaking.‡

8. The borrower may, after the completion of the undertaking, be granted a larger loan up to the amount which he has spent thereon, should the costs not be covered by the original loan. In such case the *plus*-value obtained by the improvement shall be estimated by a fresh valuation.

The security is to be considered sufficient for a loan up to 50 per cent. of the new valuation.

9. In the cases contemplated in sections 7 and 8, the rules necessary in the interests of the bank for ascertaining that the improvements are maintained in good order, the principles on which the special valuations are to be made by the bank, the rules for taking into consideration the *plus*-value expected to be produced by an improvement (section 7 (1)) or of the *plus*-value actually produced (section 8), as well as the rules for the methods and for the perfection of the undertaking, shall be entered in the articles.

10. Loans which may be granted for improvements by drainage may, so far as the articles of a bank provide, come under the application of the following sections 11 to 31.§

11. If a proposed drainage work is found capable of effecting a permanent improvement in an estate, the borrower may, under stipulation that the hereinunder following restrictions shall be observed, claim that after the execution of the work to be completed in a given time, the annuities payable by the estate together with any additional amounts (section 34) shall obtain a right of priority over all other charges founded on private titles in the estate in question.

12. A loan shall be repaid by the registered annuities. Such annuities shall be paid by at least half-yearly instalments. It is also to be provided that in addition to the regular interest, at least four

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* The banks are not intended to make serious profit; expenses are provided for by a special subscription *ad hoc* of 0·2 per cent. annually.

† This is simply the amortization system customary in Land banks of repaying loans by fixed annuities combining payments on account of both interest and principal; as the principal diminishes the proportion of the annuity credited to the sinking fund *pro ratâ* increases.

‡ This section is an important one for Indian consideration.

§ As mentioned in Vol. I, pages 63–64, these banks arose out of a demand for facilities for undertaking drainage projects, so that the rules on this subject are more specific than on the other subjects of the law. The entry of section 31 seems a clerical error for section 32. In line 22 from the top, page 64, Vol. I, it may be noted that though the bill may have had only 32 sections, the law—the present one—has 53. It should also be noted that the present law does not cancel, but apparently developes the previous laws on the several subjects mentioned in section 1 (*see* Vol. I, page 63, paragraph 4), and that the law relating to the formation of irrigation and drainage associations is now that of 1st April 1879, and, as mentioned in the statement of objects and reasons for the law under translation, is the complement or correlative of that law. It is hoped, shortly, to translate the law for irrigation and drainage associations, if indeed it does not appear in the present volume. Meanwhile it may be stated that, like the "Associations Syndicales" (*see* present volume), they are 'voluntary' and 'public'; one section says, "The Associations (Genossenschaften) shall be established either by mutual agreement—voluntary associations—or by decree of the State authorities—public associations."

per cent. shall be annually paid to the sinking fund.* The articles may prescribe that the amount payable in the first year shall not exceed the amount due as interest.

Such portions of the annuities as are not required for interest as the principal decreases by the gradual increase of the sinking fund, shall be added to the sinking fund.

13. The right of priority may only be granted for such amount, to be repaid by annuities, as does not exceed the actual costs of the undertaking.

The right of priority may, with regard to such portions of the estate as are specially charged (with the right), only be granted in so far as such portions are directly affected by the improvement.

14. The borrower has the right to obtain, by an entry in the land or mortgage registers, a prior right over all subsequent registrations or lawful mortgages, and, moreover, to claim from the special authorities † the grant of a right of priority in general (for this loan) on presentation—

(1) of a regular plan and estimate for the proposed drainage work with the intended date of completion;

(2) a certified extract from the land register relating to the estate, or of an extract from the mortgage register showing all existing mortgages, including that mentioned at the beginning of this section.

15. The special authorities shall require upon the proposal the opinion of one of the commissions instituted for this purpose in the Province; such opinion shall show whether and to what extent the proper execution of the proposed undertaking is capable of bringing about a permanent improvement to the estate, and how far the estimate of the cost is suitable.

In simple and clear cases, the special authorities are permitted, according to their discretion, to obtain the above information in any other way.

16. The commissions mentioned in section 15 shall consist of two proprietors of estates within the Provincial union; these shall be chosen at the time from the Provincial council; to these shall be added one of the sworn experts appointed by the special authorities.

The duties of such commission may by the articles be transferred to any Landschaft (Land bank) established in the same district (under certain conditions which it would be useless to translate).

17. Should the special authorities consider that the proposed drainage work is of a nature to permanently benefit the estate at least to the amount of the cost of the work, it shall invite, by public advertisement, the notification by any claimants to the property of any objection to the grant of the above-mentioned right of priority; such objection to be made in writing within six weeks.

18. In the notice—

(1) the amount and period of the annuities to be paid by the borrower, and the estate which is to be the security for the loan, are to be mentioned;
(2) it must further be stated that the plan and estimate of the proposed drainage work together with the opinion of the commission or the information otherwise obtained, may be inspected at a given place and for a certain period;
(3) it is also to be declared that at the expiry of the period a decision will be passed on the merits of the case regarding the grant of a right of priority to the loan, and that no objection will be considered which may be put in after the date of such decision.

19. The publication of the notice is made by a single advertisement in the official gazette, and in whatever newspaper is used for official publications at the seat of the Civil Court within the jurisdiction of which the estate is situated.

The period of six weeks mentioned in section 17, runs from the day on which the later of the above advertisements appears.

20. (Omitted.)

21. Should an objection be lodged within due time by a legal claimant, the grant of a right of priority shall be deferred till after the decision upon the claim of the objector and others.

An objection is in due time if lodged before the decision of the special authorities is issued.

22. After the expiry of the period (for objections) the special authorities must decide what priority may be granted for the annuities in case of the regular carrying out of the proposed drainage work.

The decision is to be accompanied by the reasons thereof. The decision is final (eine Anfectung findet nicht statt).

The special authorities may, before the issue of their decision, set on foot an enquiry by commissioners (arbitrators) for the settlement with any objectors of their objections; notice shall be given to the claimant (of the loan) of such enquiry.

23. Upon a favourable decision by the special authorities, the bank may assure the borrower that the loan will be granted after production of the necessary security.

24. Security shall be obtained by registering the annuities and any supplements thereto in the land or mortgage register. The same is the case if the principal of the loan is registered in place of the annuities.‡

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* It will be noticed that drainage loans are to be rapidly repaid.

† Auseinandersetzungsbehörde; it is not quite clear who these authorities are, but they are a Government department; the commentary simply speaks of them as "that Government department which, in each Province is expressly regarded as the "Auseinandersetzungsbehörde." "Apparently it means the Government authorities who are *specially* (auseinander) charged with the duties mentioned in this law as appertaining to them. In the text they will hereafter be called the "special authorities."

‡ It will be noticed that the annuities (Rente) are treated as the loan, just as in the statutes relating to the Landschaften, the debentures (Pfandbriefe) are so treated because the loan is usually issued as debentures repayable by a fixed series of annuities, and is not issued as a loan of a lump sum in cash.

25. The registration of the priority of the annuities in the land or mortgage register is based upon the decision of the special authorities and upon a certificate that the execution of the drainage work is effectually accomplished.

The special authorities must, before granting the certificate, obtain the necessary information in the manner provided in section 15.

The decision of the special authorities as to the proper execution of the work shall be final (ist nicht anfechtbar).

26. Should it appear to the special authorities according to an enquiry as in section 25, that a portion of a projected undertaking has been regularly executed and that thereby a permanent and substantial improvement has been effected, such portion of the annuities as may be determined upon by the authorities may be registered as having priority of right.

27. The registration of the right of priority is valid without the production of the deeds executed in the matter of existing claims upon the property.

28. The owner of a property charged with annuities is bound to maintain the drainage works in good order throughout the duration of the annuity charge. The bank is bound to watch over the fulfilment of this duty and, in case of necessity, to compel it.

On the demand of the bank or of any of the claimants whose dues have been postponed (to those of the bank) by the special authorities (section 22), the said authorities may carry out any necessary repairs at the cost of the owner.

29. The costs incurred by the proceedings of the special authorities are to be calculated according to the rules in force for affairs carried out by the said authorities.

30. At the partition of an estate charged with annuities, the rules for the partition of the State taxes are applicable to the partition of the burden of the annuities; but in such case should any share of the annuity fall below 1 mark (shilling) annually, it shall be at once redeemed by payment of its capitalized value (section 36).

The shares to be imposed on the separate divisions shall be so rounded off that the amount of each expressed in pfennigs (half-farthings) shall be divisible by ten.

31. The cancelment of the annuity charge in the land or mortgage register shall be obtained by the bank. Such cancelment must be obtained as soon as the annuities are fully paid off.

32. If a loan is granted for a drainage work on a feudal or fidei-commissa estate, sections 10 to 16 and 22 to 31 are applicable to the sharers in such estates and to the male descendants, in so far that the registration of the annuities as a charge upon the estate do not require the consent of the above parties.

No objection from such parties shall be admissible.

* 33. The demand for mortgage security may be omitted when the loan is to be granted—

(1) to a municipality or commune;
(2) to public co-operative societies (Genossenschaften) in the sense of the law of 1st April 1879 regarding the formation of Irrigation Societies;
(3) to dyke associations (Genossenschaften) which are provided with rights as corporations and the organization of which is directed by rules ratified by the sovereign;
(4) to co-operative associations in the sense of the law of 6th July 1875 regarding game-forests and forest associations.†

34. Contributions to the costs of the management of the bank may be collected as supplements to the annuities and may amount annually to a proportion not exceeding 0·2 per cent. of the loan.‡

35. The annuities together with all charges leviable, according to the articles, on account of the maintenance of improvements (sections 9 and 28), may be collected by administrative execution (distraint or attachment?) or otherwise enforced.

36. The borrower is always free to repay to the bank either the whole or part of his debt, and either in cash or in the bank's debentures at their face-value.

In such case the annuities to be paid up must include those of the current half-year. Repayments in part are not to be accepted if below £25.

37. The debentures may be issued in the forms hereinunder given § in sums of £250, £100, £50, £25 and £10 each; they must bear consecutive numbers in their several series, and must bear interest at a rate not exceeding 4½ per cent. per annum payable half-yearly.

The holders of the debentures can claim no right of repayment.‖

38. With every debenture shall be issued interest coupons for ten years as per Form B, to which are attached a certificate (Talon) in Form C.¶

At the end of ten years a new set of interest coupons is issued to the holder of the certificate (Talon) upon production of the same, unless the holder of the debentures themselves lodges within due time and at the appointed place an objection to such issue; in such case the issue of the new set of coupons with its certificate is made to the holder of the actual debentures.

39. The value of such coupons as have fallen due will be paid in cash by the bank on delivery of the same.

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* From this section the rules become general and do not relate solely to drainage works.

† In all these sub-sections the word for association or society is 'Genossenschaft' or co-operative society, as distinguished from a 'Gesellschaft' or public company generally joint stock and operating for dividends.

‡ The law does not say whether the original amount of the loan is here meant or the amount outstanding in each year. In a gradually decreasing principal this is an important matter. Probably it is 0·2 per cent. throughout on the original loan amount.

§ Omitted.

‖ That is, till drawn by lot or bought in by the bank; they cannot present them to the bank at any time and demand payment as though they were notes; they are simply bonds repayable by the bank when drawn by lot or bought up by the bank, *see* Vol. I, pp. 96, 97, &c.

¶ These forms are omitted in this translation.

40. The limitation period for the value of due but not presented interest coupons is four years. Such period counts from the December following the due date of payment.

41. (The bank must draw by lot or buy in for repayment every half-year as many debentures as the sinking fund permits. The numbers of those drawn and the place, &c., of repayment must be duly published.)

42. The face-value of the debentures drawn shall be paid in cash to the holders thereof. No interest is payable on debentures from the date fixed for their repayment.

43. The limitation period for the repayment of drawn debentures shall be ten years. Such period runs from December of the year in which the date for repayment falls due.

44. Even though a debenture is no longer entitled to interest (section 42), the interest coupons thereon which have still to run will be paid by the bank to the person presenting them, in which case the debenture holder must, when he presents the debenture for repayment, submit to the deduction of the value of the missing coupons.*

45. (All drawn or bought-in debenture to be burnt with various precautions.)

46. (In case of lost or destroyed debentures public notice may be issued declaring them null and void; to be issued only after a certain time. Presumably duplicates will then issue. No such notice can issue in the case of certificates (Talons) or interest coupons; but the value of coupons may be paid after the period of limitation is over, provided that due notice has been given to the bank at the time of the alleged loss or destruction.)

47. A reserve shall be constituted from all sums obtained by the bank as interest from the investment of their cash balances,† from any market premium (on the issue of debentures, sections 4 and 41), and from the proceeds of any interest coupons or debentures of which the limitation period may have passed (sections 40 and 43).

The interest received upon (the investment of) the reserve shall be credited to the reserve.

The reserve shall accumulate up to the amount of 5 per cent. of the value of the aggregate debentures issued.‡

The reserve is intended to cover any losses upon the annuities. Should the amount of the reserve be below the above proportion, the deficiency shall be supplied by the Provincial union. Any excess of the reserve beyond 5 per cent. and any surplus thereof which may remain at the dissolution of the bank after the complete repayment of all debentures, shall be credited to the Provincial union.

48. So soon as the reserve shall have reached the amount mentioned in section 47, paragraph 3, the interest thereon shall, by special provision in the articles of the bank, be applied to the costs of administering the bank with a corresponding total or partial reduction of the supplementary payments mentioned in section 34.

49. Such freedom from stamp duty as is granted to the treasury (Fiskus) shall be conceded to the Land Improvement banks. The registration of securities mentioned in sections 6, 14, 24, and 27, in the land or mortgage registers shall be free of charge.

50. The directors of a bank are bound once in every year to publish a report of the bank's affairs.

51. By a decree of the Provincial Council confirmed by sovereign approval, a Land Improvement bank may be dissolved, and for this purpose a period shall be fixed after which loans shall no longer be granted by the bank.

52. The articles of a bank shall provide for—

(1) the objects of the bank (sections 1 and 3);
(2) the manner of choosing the directors, rules for their meetings and for their duties;
(3) rules for the presentation of and modes of enquiry into applications for loans, as also for deciding upon the same;
(4) the principles to be observed in valuations in conformity with sections 7, 8, 9, and 24, paragraph 2, in the suitable betterment of the estates to be improved, and in the enquiry regarding the due execution and in the control over the maintenance of works of improvement;
(5) the provisions for paying interest on and for paying off loans and for repaying the costs of administration (sections 5, 34 and 48), and the rules regarding the costs incurred in enquiries regarding loans and in undertaking special valuations) (sections 6, 7 and 8);
(6) the periods at which debentures shall issue and at which annuities shall be paid, as also those for the collection of interest (section 37);
(7) the scheme of the sinking fund (sections 5, 12), the procedure for the repayment of loans (section 36), the periods at which debentures will be drawn, and drawn debentures will be paid, and the rules for the investment of the reserve at interest (sections 41, 42 and 47);
(8) the rules for the formation and procedure of drainage commissions (section 15), as also the modes of transferring the duties of such commissions to a land bank (section 16 (2));
(9) the procedure to be followed in making notifications (sections 41, 45 and 50), as also the public journals in which they are to be published.

53. The articles of a bank must be approved by the Provincial council, and require ratification by the Sovereign.

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* That is, if a debenture is drawn for repayment while it still bears or should bear the coupons of several years to come, the bank will pay the value of such coupons at their due date whether the debenture has been paid off or not, since the debenture-holder may have discounted in advance the whole ten years' coupons; in such case the bank will deduct from the amount repayable on the debenture the sum due for all coupons whose due date was subsequent to the drawing of the debenture (section 42), but which are missing at the time of repayment of the debenture.

† That is from sums kept in land and not issued on loan.

‡ 'Ausgegebenen'; this appears to be an error for 'bestehenden' or 'ausstehenden' = outstanding, since a reserve consisting of 5 per cent. of all *issued* debentures would be unusual and probably unnecessary.

CHAPTER II.—AGRICULTURAL CREDIT (CREDIT AGRICOLE).*

LAW OF 28TH JULY 1860 (FRANCE).

1. Articles 2 and 3 of the agreement between the State and the 'Society for agricultural credit' are hereby ratified: these articles stipulate on behalf of the society for a State subvention to be granted only during the first five years of the society's existence, and only in case the annual profits are insufficient (to give the costs of management and interest mentioned below). The subvention shall be granted to cover the costs of management and to guarantee interest at 4 per cent. on the paid-up capital, but shall not exceed annually the sum of £16,000 and shall be further subject to the conditions of the said articles.

AGREEMENT.

1. The founders agree to form, with the approval of Government, a joint stock society with the object of providing capital and credit for agriculture and for the industries allied thereto, and of undertaking all operations which shall encourage the clearance and improvement of the soil.

2. In case the annual profits of the society are insufficient to cover the costs of management and interest at 4 per cent. on the paid-up capital, the difference shall be paid to the society by the State, provided that the sum so paid shall in no case exceed annually £16,000.

This arrangement shall subsist for five years from date of approval of the society's articles.

Any losses sustained by the society by reason of the non-payment of the principal or interest of its loans shall be borne solely by the society. In the settlement of accounts between the State and the society, such sums shall be considered as paid even though unpaid.†

3. The society shall draw up a proper balance sheet showing the cost of administration and the net results of the business.

LAW OF 16TH FEBRUARY 1861.

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3. The society is bound to send every six months a statement of its position to the Minister of Agriculture, Commerce, &c., to the Chamber of Commerce, and to the Commercial Court of the district of the Seine.

4. Moreover, the society must furnish to the Finance Minister, either on demand or at fixed periods to be settled by him, similar statements showing its financial position, its securities, and its business.

5. The working of the society shall be subject to verification by the inspectors of the Finance Minister whenever he deems it advisable. These inspectors shall be furnished with the minutes of meetings and with all the books, accounts, vouchers and documents of the society, and they shall inspect all securities.‡

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* *See* Vol. I, pp. 123–126.

This law consists only of the single section here entered, but must be read with the subsequently entered agreement and with the law of 16th February 1861.

The society failed disastrously in 1876, and has never been revived, a fact which fairly goes to prove the inability of central institutions to grant current and petty credit to millions of small holders, the object for which it was started. The law is entered to show that privileges are useless when the institution is constitutionally unfit for its purposes.

At the time this law was framed no joint stock company could be formed in France without the express authorization of Government (section 37 of the Code of Commerce).

† The object, of course, is to secure the utmost care and good management on the part of the society; the State would not allow its subvention to encourage careless lending or careless administration.

‡ A subsequent addition is as follows:—

A financial statement drawn up at the end of each month and signed by the Governor shall be published (in certain newspapers), and copies sent to the Minister of Agriculture, &c., and of Finance. The statement shall be not merely a balance sheet, but shall show the movement of its funds, and the value of paper in circulation under its endorsement and guarantee (*see* 'Discounts,' pp. 124, 25 of Vol. I).

LAW OF 28TH MARCH 1848 (FRANCE) ESTABLISHING SUB-OFFICES OF DISCOUNT.*

Preamble: The provisional Government, recognizing that the decree of 8th March 1848 relating to National Discount banks, permits these institutions to discount only bills with at least two signatures; that the great mass of small traders, artisans, and *agriculturists* cannot provide a second signature; that such persons are therefore deprived of the benefits of the discount bank since they possess no other sources of credit than their own assets which are necessarily fixed (immobilisé, *i.e.*, sunk in their business, farm implements, &c.) and that it is necessary that most persons should share in the benefits of credit; hereby decrees as follows:—

1. In towns where a (National) Discount bank exists, sub-offices may be established either for particular localities or for specific groups of industries, which shall serve as intermediary guarantees between industry, trade, and agriculture on the one part and the National Discount banks on the other.

2. The sub-offices shall be organized as joint stock companies each with a capital of not less than £4,000, in shares to bearer of £4 each. They may begin business whatever the number of shares subscribed.

3. The manager of a sub-office shall be appointed by the Minister of Finance, and shall be *ex-officio* the chairman of the directorate. A committee shall moreover be appointed by the Discount bank of that locality which shall supervise the operations of the sub-office.

4. The business of the sub-offices shall consist in procuring for tradesmen, artisans, and agriculturists either on their own security or with that of a guarantee, or with the endorsement of a third person, the discount of their bills or notes of hand at the Discount bank, such bills being secured by the pledge with the sub-offices of goods, warehouse deposit receipts and securities.†

5. The capital of the sub-offices is not intended to be used for such discounts, but solely as guaranteeing their business with the Discount banks. Hence the whole of their captail shall be deposited at interest in the respective Discount banks to which the sub-offices are annexed.‡

6. The sub-offices shall not engage in any business whatsoever save as intermediaries between the Discount banks (and clients), so that the capital of the sub-offices shall be liable for nothing except for business accepted by the Discount banks.

7. For the increase of such capital the sub-offices are authorized to deduct on each operation (discount) a sum of 5 per cent., which shall be carried to the credit of the client, who shall become a shareholder as soon as these deductions amount to £4.§

8. The sub-offices are entitled to levy from the net proceeds of the advances made through them, 0·25 per cent. per month as commission, exclusive of all costs of warehousing, &c.

9. In modification of the provisions of the Civil Code relative to pledge and to the recovery of dues on advances on pledge, the sub-offices are authorized, eight days after simple notice and without

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* The Bank of France only discounts short-term bills with three separate signatures or acceptances, and two of those only of a particular character; in 1848 it was therefore determined by Government to establish National Discount banks which would accept paper with two signatures of known constituents, add its own signature, and rediscount the paper with the Bank of France. The 'National Discount bank of Paris' was one result, but this, being itself a central bank, could not deal with the small folk of whose circumstances it was ignorant, nor could it grant loans on the pledge of goods and produce, since the French law recognizes in matters of pledge only loans on actual pawn or delivery of the goods to the pledgee, and it would hence be impossible for a central bank to deal with farmers and small manufacturers in the provinces. It was therefore determined to establish sub-offices of discount (Sous-Comptoirs) which should deal at first hand with the small trading and producing folk, receive their pledges and discount their bills which might contain only the single signature of the borrower, since the bill would be secured either by the pledge of goods or by the known character of the borrower. The preamble to the Act explains the excellent intentions of the legislature. In 1860 the Credit Foncier, then in full and successful operation, was substituted for the National Discount bank of Paris for the one sub-office in operation.

The Act is here inserted to mark a failure at least as regards agriculture. There was a known and recognized want, viz., that of capital and credit for small folk; a law was thought out and introduced for their express benefit and placed under an active, very powerful and thoroughly well organized and managed institution, viz., the crédit Foncier; yet it has been, as regards the vast mass of such small folk, a dead failure. It is believed that only one sub-office was established, viz., that of the 'sub-office for contractors' at Paris, which deals with building operations. At all events if there are more than this one, they do nothing for agricultural credit, for they are not even mentioned in any of the reports or treatises dealing with the subject.

The failure of the like Belgian experiment (*q.v.*) may be compared.

† One reason for the failure of the sub-offices to reach agriculturists is here made clear; the notes or bills of the borrowers would only be accepted when accompanied by the actual pledge of goods deposited, or of receipts for goods under deposit in warehouses maintained for the purpose. Obviously an agriculturist cannot often pledge his produce, cattle or implements with a bank; for him, at least, the pledge without delivery, as in English bills of sale, or as in the Italian and Belgian special laws for agricultural credit (*see infra*), is necessary.

‡ The sub-offices were not to find the actual funds for advances on discount; secured by the signature of the borrower *and the pledge of his goods*, a sub-office was to affix its own signature to the bill and pass it on to the Discount bank: this latter would find the funds, and then rediscount the bill with the Bank of France, its own signature being the third signature required. Hence the Bank of France finally advanced funds to the borrowers on the security (1) of the borrower's signature and pledge of goods guaranteed, (2) by the signature of the sub-office and further secured, (3) by that of the Discount bank. This is the probable mode in which funds will be attempted to be provided by the new law of 1894, except that there will be no pledge of goods; the bills will be signed by the member of a known association and by his surety also a member; this will be countersigned by a Discount bank and rediscounted by the Bank of France.

§ This is a somewhat peculiar mode of enforcing thrift while forcibly increasing the capital of the loan office. There is a somewhat similar provision in some Italian Popular banks, *q.v.*, which charge moderate interest on 'loans upon honour,' and credit the borrower with the amount until accumulates to the value of a share; in the Popular banks, however, the sole object is the encouragement of thrift and of the self-respect which follows from having a banking account or from being a member of a bank.

any application to court, to proceed to the public sale by the proper officers, of any goods pledged to them.*

10. All documents evidencing pledge to the sub-offices shall bear a fixed duty of 2·20 francs.

FRENCH LAW OF 5TH NOVEMBER 1894 RELATIVE TO THE CREATION OF SOCIETIES OF "CREDIT AGRICOLE."†

1. Societies for agricultural credit may be founded either by the aggregate of the members of one or more agricultural associations, or by some of such members; their object shall exclusively be that of facilitating or of guaranteeing operations affecting agriculture carried out by such associations or by members of such associations.

The societies may receive deposits in account current with or without interest; may charge themselves, so far as concerns the operations of agriculture, with the recoveries and payments to be made for the associations or for members thereof. They may specially borrow funds necessary to increase their working capital.

The capital shall not be formed by (ordinary) subscribed shares (actions), but by the contributions of members of the society. These contributions shall form shares (parts) which may be of unequal value; they shall be personal and not transferable except to members of the agricultural association and with the consent of the society.

The society shall not be constituted till after one-fourth of the subscribed capital shall have been paid.

When such society shall have adopted the form of a society "à capital variable," the capital may not be reduced by the withdrawal of shares of retiring members below the amount of the foundation capital.

2. The articles shall determine the head-quarters and mode of administration of the society, the conditions necessary for the modification of the articles and for the dissolution of the society, the formation of the capital, and the proportion in which each of the members shall contribute to such formation.

They shall determine the maximum of deposits to be received in account current and the extent and conditions of the responsibility which shall attach to each member on account of the engagements of the society.

Members shall not be freed from their responsibility until after the settlement of engagements contracted by the society before their withdrawal.

3. The articles shall determine the sums to be taken as profits on the operations undertaken by it.

Such sums, after payment of the general expenses and of interest upon loans (borrowed by the society) and upon the capital, shall be first of all carried, in the proportion of at least three-fourths, to the building up of a reserve, till such reserve shall have attained the amount of at least half of the capital.

The balance shall be divided at the end of each business year, between the agricultural associations and between the members of such associations in proportion to the profits derived from their respective operations.‡

It shall not, in any case, be divided, in the form of a dividend, between the members of the society.

At the liquidation of the society, the reserve and the remainder of the assets shall be divided among the members in proportion to their subscriptions unless the articles shall require its employment in some work of agricultural interest.

4. The societies of credit authorized by the present law are commercial societies, the books of which shall be kept in conformity with the provisions of the Code of Commerce.

They are exempted from all charge for trading license (patente) as well as from the tax on commercial paper.

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* The ordinary law (section 2078 of the Civil Code) is that a pawnee shall not, in default of payment, be allowed to annex the property pledged, but must proceed by suit in court which shall grant him the property, or the value of his debt after selling the property by auction.

The Indian law (section 176 of the Contract Act) allows the pawnee either to proceed by suit or himself to sell the thing pledged after due notice to the pawnor. Hence the ordinary Indian law is the same as the specially privileged procedure of the law for the Sous-Comptoirs, and exemplifies the remarks in Vol. I, p. 304, that privileges in Europe often merely assimilate the law to the ordinary law of England or of this country; *cf.* the Italian and Belgian *special* laws relating to pledge with the ordinary English bills of sale.

There is another law, however, relating to deposits of goods in warehouses; these are either public or private; the owners of the warehouses may lend on pledge of goods deposited therein, or they may merely give the usual certificates, receipts or warrants, which the holders or transferees thereof may pledge. In such cases, which are contemplated in the last part of section 4, the pawnees of the goods or transferees of the warrants (as pawnees) may sell the goods eight days after failure of the pawnor to pay his debt either through the commercial court (law of 1848) or by the public auctioneers (law of 28th May 1858) without any suit whatsoever. The French law relating to general warehouses is to be found in the laws of 23rd August 1848, 28th May 1851, 12th March 1859 (decree) and 31st August 1870. The Indian law is section 178 of the Contract Act, which, however, does not govern the establishment of warehouses, but merely permits of the pledge of warrants, &c., and does not appear to provide for the sale of the *goods* covered by the warrant where the warrant is pledged, but only the sale of warrant or other document.

The European law of pawnbroking and Monts de Piété differs from the ordinary law of pledge, and permits of sale of the pledges on default of payment.

† *See* pp. 179–81 and 218–19 of Vol I, in which the agricultural associations of France with their credit annexes, as at Poligny, are described. The new law proposes to utilize the immense number of newly-formed (since 1884) agricultural associations in supplying agricultural credit.

‡ That is the original Rochdale co-operative principle. The profits made by the society are regarded as an excess levied from those who have dealt, as members, with the society, and this excess is therefore refunded to such persons in proportion to the amount of their dealings, or, if ascertainable, in proportion to the profits actually derived from the operations of the society with them.

5. The following conditions of publicity are substituted for those prescribed for ordinary commercial societies:—

Before the society can begin work, the articles, with a complete list of directors or managing members and of all members with their names, addresses, profession and the amount of each member's subscription, shall be deposited in duplicate in the office of the Justice of the Peace (*Juge de paix*) in the Canton in which the society has its head-quarters. A receipt shall be given for such deposit.

One of the copies shall be sent by the said Justice to the office of the Commercial Court of the taluk.

Every year in the first fortnight of February, the manager or a director shall send in duplicate to the office of the Justice of the Peace, an abstract of receipts and expenses, as well as of the operations carried out in the preceding year, together with a list of the members who belong to the society at that date. One of these copies shall be sent by the Justice of the Peace to the office of the Commercial Court.

The documents deposited in the office of the Justice of the Peace and of the Commercial Court, shall be open to the inspection of the public on demand.

6. The members who are charged with the administration of the society are personally responsible in case of breach of the provisions of this law, or of the articles, for any damage resulting from such breach.

They may in such case be prosecuted and punished with a fine of from francs 16 to francs 200.

The court may also, on the motion of the public prosecutor, decree the dissolution of the society.

In case of any false declaration regarding the articles or the names and status of the directors, managers, or members, the fine may extend to 500 francs (£20).

7. The present law is applicable to Algeria and the Colonies.

BELGIAN LAWS REGARDING AGRICULTURAL CREDIT, 15TH APRIL 1884.

CHAPTER I.—LOAN OFFICES.

1. The general savings bank is authorised to employ part of its funds in loans to agriculturists.

These loans shall, according to their form and nature, be considered as temporary * or permanent investments of the savings bank, and shall be granted through loan offices (comptoirs agricoles) established in such localities as may be deemed advisable.

2. The chief council of the savings bank shall determine the rate and conditions of the loans, as also the conditions † on which the offices shall be organized and approved.

Its decisions on these points and its arrangements with the offices shall be submitted for the approval of the Minister of Finance.

3. In default of payment of a loan (granted through an office) at due date, the security given by the office shall be proceeded against according to law (5th May 1872, sections 4 to 9). ‡

In such case petitions shall be made to the court having jurisdiction which will take cognizance of any objections of which notice shall be given.

CHAPTER II.—THE SPECIAL AGRICULTURAL PRIVILEGE.

4. Loans made to agriculturists § may be secured by a special privilege recited in the loan deed and chargeable upon the goods which are subject to the privilege of the landlord by section 20 of the law of 16th December 1851. ‖

The deed must indicate the nature and value of the goods charged.

5. To obtain the privilege the lender must make it public by registration in a special register to be maintained by the registrar. The date of registration determines the order of priority. ¶

6. The privilege is valid for ten years from date of registration, and then ceases if not renewed.

7. Registration secures to the lender a preferential right over and the right to follow (the goods charged). The right of following the goods is exercised in conformity with the law of 16th December 1851, section 20 (1).

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* The French words are "provisoires" and "definitifs". But the real meaning is 'short' and 'long' term; part of the funds of a savings bank must be invested in short-term loans, the rest in long term such as mortgages.

† *See* the rules which follow this law.

‡ It will be seen by the rules (*see* also Vol. I, p. 128) that the comptoirs are to be responsible to the savings bank for the loans issued through their agency, and are to give guarantees or pledges which can be sued upon in case of default by the debtor.

§ It will be noticed that the privilege is granted upon loans granted to "agriculturists," not "for agricultural purposes." Nor is the privilege confined to loans from institutions or banks as by the Italian law of 1887 (*see infra* pp. 52—56); it is granted to all who lend to agriculturists, whether bank or private lender (statement of objects and reasons) The idea is to ensure the granting of credit to agriculture on easy terms by giving lenders special facilities for recovering their dues.

The word "privilege" is used as a convenient translation of the French word "privilege," though the words "prior" or "preferential right and claim or charges" would more accurately give the meaning.

‖ Viz., the produce, stock, furniture, &c., of the farm. The second paragraph of the section limits the privilege to such goods or classes of goods as are mentioned in the loan deed, which is, practically, a bill of sale.

¶ A mortgagee of the lands of a farm held by its owner and mortgagor, has, by the Code Napoleon and similar codes, a right over the movables used for the working of the farm, which are called immovables "par destination." Hence the present law provides for lenders under this law by giving them rights over such property, provided that the bill of sale has been registered (*see* section 12 *infra*). If a farm is held by a tenant, the working stock does not form an immovable "par destination," but, on the other hand, is subject to the preferential rights of the landlord (*see* section 8 *infra*).

8. The landlord takes precedence of the lender unless he shall have yielded his claim of preference.

If the loan has been used in paying off creditors who have prior rights to the landlord, the lender succeeds to the rights of such creditors and takes precedence of the landlord under the conditions of the law of 16th December 1851.* This substitution is only permissible when the loan deed itself recites the intended application of the money and when such application is duly proved by receipts.

9. The landlord shall only enjoy his privileged right for rent for the current year and for the three prior years, together with any damages which may be decreed by reason of the non-fulfilment by the tenant of his contract as regards the work of the form and the payment of rent.

10. The borrower is bound, if so required, to prove each year within three months of the due date, that he has duly paid his rents on pain of losing, *ipso facto*, the benefit of his full loan period.

Every lender may retain, against a receipt duly given by him, the receipts produced by the tenant, and he binds himself, by such retention, to preserve them and to produce them on demand by interested third parties.

11. The owner who makes a loan to his tenant, whether by the lease deed or during the lease, must conform to the conditions of the present law if he desires to enjoy the privilege of the lender.

12. If the owner himself cultivates his farm, loans made to him enjoy the privileges of the law.

The lender may exercise his privilege over all movables considered as immovables "par destination" (farm stock), as well as over the crops on the ground and fruits not yet gathered.

The claims of mortgagees previously registered take precedence of his privilege, which however takes precedence of mortgages subsequently registered.

If the loan amount has been used to pay off creditors with rights which take precedence of those of mortgagees, the lender succeeds to the rights of such creditors on the conditions mentioned in section 8 *supra*.

13. A cash credit for a definite sum enjoys the privilege granted by the present law. It takes rank from the date of registration without regard to the various successive dates of payment of the money.

14. A lender under this law exercises his rights under the procedure and by the methods laid down for landlords. †

Chapter III.—Registration.

15 and 16. (Relate to the place of registration and to the registers.)

17. The loan deed or agreement to grant credit (with all necessary details) is presented to the registrar, who enters it *verbatim* in the proper register and returns it with an endorsment that it has been duly registered.

18. The transfer of a debt carrying the special privilege or the substitution of a similar right must also be registered to obtain validity. In such cases the registrar makes the registry by note in the margin of the original register entry.

19. Registered entries may be cancelled or modified by consent of the parties interested, or by virtue of a decree.

20. (Omitted.)

21. The registrar is bound to deliver to any applicant upon due payment a copy of any existing register entries or a certificate that none such exist (in relation to a particular property).

22. (Omitted.)

23. One franc is payable to the registrar

(1) for each entry;
(2) for the annulment or modification of an entry;
(3) for a copy of any entry;
(4) for a certificate of non-existence of any entry.

Chapter IV.—Stamp Duties and Registration Fees.

24. Agreements between the general savings bank and the members of any loan office (comptoir agricole) are registered *gratis*.

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* The rights of landlords in Europe are peculiar and extensive, but need not be detailed. Suffice it to say that, by the law mentioned (16th December 1851), the preferential claim of the landlord which takes precedence of mortgage and other contractual claims, extends in all cases to the rents of the past three years and, if the lease is one of fixed term based on a regular contract, to the rents of all the remaining years of the lease: if it is a holding without written and registered contract (as of a tenant at will), the preferential right extends only to the rent of the current and next succeeding year in addition to that of the past three years. The present law, however, restricts the privileged rights of the landlord to the rent of three past years and of the current year (section 9): *cf.* the recent French law of 1889, which restricts the privilege to the rent of four years, (*see* Vol. I, p. 123). No privilege is granted for the rent of years not yet begun, a privilege which is apt to cause much hardship: *e.g.*, M. Durand states, apparently on the authority of Signor Mangili (Il credito agrario), that in Italy it is customary for a landlord to claim his rent in advance (il est d' usage de faire payer le fermage d' avance).

† This is a large privilege; the procedure of a landlord for arrears of rent is by execution (distraint) upon growing crops, goods and furniture (saisie-brandon, &c.): *see* sections 819, &c., of the Code of Civil Procedure (Belgium). Since the power is given to any creditor of an agriculturist under this law, it appears to put very large powers into the hands of usurers. The Italian law of 1887 (*q.v.*) expressly confines this power to institutions of credit, with a view to exclude usurers in favour of banks.

25. Loans and cash credits granted without other material security than the special privilege and transfers of claims arising therefrom are chargeable with a stamp duty of 0·65 per cent. for agreements for more than one year, and of 0·30 per cent. if made for one year or less.

Receipts for the repayment of sums lent are chargeable with stamp duty of 0·30 per cent.

Acknowledgments of amounts issued by the lender to the borrower require neither stamp nor registration.

RULES FOR THE CARRYING OUT OF THE BELGIAN LAW OF 15TH APRIL 1884 FOR AGRICULTURAL LOANS.

CHAPTER I.—LOAN OFFICES (COMPTOIRS AGRICOLES.)

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3. The acceptance of persons willing to become members of a loan office rests with the administrative council of the general savings bank, in whom also is vested the right of granting loans.

5. Notwithstanding the unlimited liability * of each office, its members are personally and jointly bound towards the general savings bank for the repayment of all loans.

6. The offices must furnish security for loans granted through their agency: such security is taken in guarantee either of the mass of such operations or of one or more operations.

7. In case of any default made by a borrower the office is bound at once to pay up the sum due.

8. A share of the returns is granted to the office in return for its guarantee: the share proportion is fixed by the council of the general savings bank, subject to approval of the Minister of Finance.

9. In modification of the preceding sections, it is permissible to the savings bank to grant loans to agriculturists through the agency of land-owners, or joint stock, commandite, co-operative or other societies, on such conditions and guarantees as it may consider necessary and proper.

CHAPTER II.—LOANS SECURED BY THE SPECIAL PRIVILEGE.

10. Every proposal for a loan presented (on behalf of a borrower) by an office (to the savings bank) shall contain—

(1) a statement of all necessary items of information, dealing especially with the respectability and solvency of the candidate, and with the nature and value of the goods to be charged with the special privilege;

(2) with a signed copy of the resolution agreeing to the loan.

11. Repayment may be either in one sum or by instalments. The last payment must be made at least one year before the lease expires (when the borrower is a tenant).

When the office obtains from a landlord an assignment of his claim of priority, such assignment must be evidenced by a written deed of assignment.

The office is bound to ascertain whether there are or are not creditors who have precedence of the landlord.

12. (Formalities of execution and registration of the loan deed.)

13. Interest and instalments of principal are repayable at the registration † office where the privilege has been registered.

14. The general savings bank will send to the office a tabular statement giving all details of the loan, and the dates when interest and principal are due. All repayments will be entered up in this statement. The office must send a notice to each debtor at least 15 days before date of each payment due showing the amount due and the proper date of payment.

15. Each month the general savings bank will send to each registrar a file of receipts with a memorandum of the sums due by the several borrowers in each registration office.

16. On the day next after each due date, the registrar will send a notice to the office (comptoir) and to the savings bank of every case in which default has been made. He will also return to the savings bank all receipts not issued (by reason of default of payment) within eight days of due date.

17. The office must require each (tenant) borrower to prove within three months of its due date, that he has paid his rent.‡ The office will retain the rent receipts produced by such borrower, giving for them a proper receipt, and entering the fact on the tabular statement of the borrower's dues (section 14).

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* The office (comptoir) is an association intermediate between the general savings bank and borrowers. The office itself is the immediate guarantee to the savings bank, and is required to give security such as mortgages and the pledge of securities. In return for this guarantee and for its services, one-fourth of the returns are granted to the office as an honorarium. The office forms the local agency to the savings bank; borrowers address to it their requests for loans, and when such loan has been granted by the savings bank, it assists in all further operations. The office of course has the right of proceeding against any defaulter, but it is to the office that the savings bank addresses itself for the recovery of any defaults. The method is adopted to utilize the funds of the savings bank, to relieve the bank of the direct work of enquiry and of the responsibility for the loan, and to secure the exact and prompt repayment of all its funds. (*See* Vol. I, pp. 128–130.)

† The European registration office does not exactly correspond to that of India: registration is intended as a source of revenue and the office is partly, therefore, a revenue office, similar, apparently, in some ways, to Somerset House. Repayments, &c., are made at the registration offices because the savings bank in Belgium is a State institution.

‡ The object of this is of course to ensure that the bank shall not run any risk through the landlord's right of distraint for arrears of rent. This right takes priority over the special privilege of the bank.

18. The amounts received each month by the several registrars on behalf of the general savings bank will be credited to the savings bank by the treasury at the beginning of the subsequent month.

CHAPTER III.—(RELATES MERELY TO DEPOSITS OF BORROWERS IN THE SAVINGS BANK SUB-OFFICES, PENDING THE ARRIVAL OF EACH INSTALMENT DATE.)

(The further documents available are numerous, including especially (1) a notice by the council of the savings bank fixing the rate of interest upon loans at 4 per cent., of which one-fourth is payable to the comptoir; (2) a specimen form of agreement entered into by the parties uniting to form a comptoir; (3) a form of agreement between the comptoir as a corporate body and the general savings bank; (4) a list of the subjects of enquiry, under 21 heads, when a loan is sought; (5) a specimen form of loan deed, &c).

ITALIAN LAW OF 23RD JANUARY 1887.*

CHAPTER I.—LOANS AND CASH CREDITS.

1. In guarantee of loans granted to proprietors or tenants of rural farms by institutions † granting agricultural credit, a special privilege‡ may be established upon the crops of the year, upon the produce of such farms stored in the farm house and buildings, and upon the stock, implements, and furniture of the farm.

The same privilege may be established in guarantee of loans granted by institutions for agricultural credit to metayers and tenants-in-participation who have supplied the cattle needful for cultivating and manuring the farm, the provision for winter, and the implements required for cultivating the farm according to section 1655 of the Civil Code. This privilege is, however, allowable as regards the produce in the farm house and buildings and as to the crops of the year, only in so far as the share of the metayer is concerned, and not as to that of the landlord.

No § privilege can be allowed upon loans made to metayers who have not furnished for the farm the cattle and other matters indicated in the above-mentioned section 1655. Only where the proprietor with whom the metayer shares, has joined in obtaining the loan, can the above-mentioned privilege be established.

2. The privilege may be established either generally over the crops or over the live and dead stock of the farm, or over both the one and the other, or, specially, over particular and specified items of the classes mentioned in section 1.

3. The privilege is only validly established—

(1) when the contract is contained in a written document;

(2) when the document has been duly registered.

These privileges (*i.e.*, the documents reciting them) are registered *gratis* in a special register by the registrar of mortgages within whose jurisdiction the farm in question is situated.

Certificates (of registry) are delivered *gratis*.

4. (Assimilates the privilege to that of the landlord.)

5. The landlord of such farm has a preferential right (for his rent) over the lending institution, unless he has waived such right. But the landlord's prior right when in conflict with that of the lending bank, is restricted,‖ so far as the bank's claims are concerned, to the dues of the two preceding years, of the current year and of the next succeeding year when the lease bears a date positive.

6. (Omitted.)

7. If the loan is granted either wholly or partly for one of the purposes mentioned in paragraph 5 of section 1958 of the Civil Code, the institution may enjoy the privilege of preferential right sanctioned for such cases by section 1960 of the Code.

8. The privilege mentioned in the preceding sections ranks below mortgages previously registered, but above those subsequently registered.

If the money lent has been used to pay off creditors ranking before mortgage creditors, the lending bank succeeds to all the rights of such preferred creditors in accordance with sections 1253 and 1254 of the Civil Code.

9. The privilege lasts in each case for not more than three years. It may be renewed before expiry for a period not exceeding three further years. For such renewal a note is presented to the registrar reciting the intention to renew the privilege. Such renewal is (registered) *gratis*.

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* Corrected according to the law of 26th July 1888.

Sections are occasionally omitted, as they relate to legal rules, rights, &c., which are special to Italy, and would be unintelligible in India. A certain amount of freedom has also been taken in translating so as to be intelligible to Indian readers.

† The privileges mentioned in this chapter are granted only to 'institutions' granting agricultural credit, and not to individual lenders.

‡ The privilege or preferential right granted by this law is very similar to the right conferred by the English bill of sale, viz., a mortgage without possession of movables left with the owner: the bill of sale is habitually used in British, especially Irish, agriculture, and has become notorious in the hands of money lenders. The Belgian law, translated below, may also be read in this connection. See also the rules for the bringing this law into effect.

§ The reason for the distinction between this and the preceding paragraph is that in the former case the metayer (váramdar) has a distinct and mortgageable property in the furniture of the farm, whereas the mere cultivator mentioned in the latter paragraph, puts nothing into the farm but his labour which is incapable of pledge.

‖ As the landlord's preferential right extends to four years' rent, there does not seem to be a residual value of much importance for the lending bank. Probably no bank will lend under these circumstances if the tenant is in arrears, especially as the landlord has a prior right even for the rent of a year not yet begun.

10. If the borrower alienates the goods subject to the privilege without substituting others, or allows them seriously to deteriorate, or abandons the cultivation of the farm, or in any way, whether by neglect or fraud, diminishes, to any marked extent, the security of the bank, the latter may claim the cancellation of the contract according to section 1165 of the Civil Code.

11. The privilege may be lawfully established in guarantee of one or more bills of exchange issued by the proprietor or tenant of a farm or by a metayer under the conditions mentioned in section 1, in favour of an institution granting agricultural credit, or of similar bills transferred by endorsement to such institution, or in guarantee of a cash credit opened by such institution in favour of a proprietor, tenant, &c., as above mentioned.

In such cases it is the commercial court which has jurisdiction in disputes regarding the privilege.

12. If the goods charged with the privilege are insured, any amount payable by the insurers in case of loss or damage, is charged in favour of the privilege according to its prority, unless such amount is employed in repairing the loss or damage.

13. The privilege takes rank amongst any charges or mortgages according to the date of registration.

14. Loan deeds* (contratti di prestito) are chargeable with half a lira stamp duty and 1 lira registration fee when below 1,000 lire in value; above that sum they are chargeable with half the ordinary stamp duty and registration fee.

Documents establishing the privilege (atti constitutivi del privilegio) are charged with half a lira and one lira as stamp duty and registration fee respectively.

15. The rate† of interest payable to institutions granting agricultural credit must not exceed that fixed by the Minister of Agriculture, Industry, and Trade, in concert with the Minister of Finance.

16. In all contracts not exceeding £60 in value, including bills of exchange and contracts binding only one of the parties, entered into under the preceding provisions, the mere mark of the borrower is valid if the borrower cannot write or is disabled from writing. But the document must in that case be attested by two witnesses entitled under existing laws to take part in such matters, and authenticated by a notary, mayor or judicial conciliator. Such authentication shall be gratuitous.

17. Any contract, which denies the benefits of the present law to any tenant or metayer, is *ipso facto* void.

Chapter II.—Mortgage Loans for Agricultural Improvements and Changes, and Loans to Associations.

18. Mortgage loans for land improvements and for agricultural developments within the meaning of this Act are those which are granted by authorized institutions‡ to proprietors of farms and to associations legally established, for one of the following purposes:—

(1) the construction of buildings for the lodgment of cultivators and their families, for the protection of cattle, for the storage of crops and agricultural produce, and for the preliminary dealing § with such produce;
(2) drainage and irrigation;
(3) the digging of wells and provision of water-supply for men and animals;
(4) the plantation of vines and fruit trees on bare lands whether in cultivation or otherwise, and on lands covered with scrub jungle (cespugliati) or unreserved wood;
(5) the levelling and preparation of land, the construction of agricultural roads, the straightening and embanking of water courses;
(6) all other operations which, in the opinion of the Agricultural Council, are declared by the rules (framed under the law) to be agricultural improvements.

19. To the end that loans under section 18 shall be admitted to the benefits, privileges, and exemptions of this law, it is necessary—

(1) that they shall have been granted for terms not less than three years, nor longer than 30;
(2) that they shall be extinguishable by instalments (ammortizabili ratealmente), with, however, permission to the borrower to pay off his debt before due date without the charges leviable in the case of ordinary land mortgages (by land banks);
(3) that the loan amount shall be issued by instalments according as the work progresses;
(4) that the rate of interest shall not exceed the maximum fixed by the Minister of Agriculture, Industry, and Trade in concert with the Minister of Finance.

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* Apparently banks granting agricultural credit are granted privileged rates of stamp duty and registration fees for all loans relating to agriculture, whether the special privilege is established or not. But the section is not clear.

† This is a remarkable and apparently inadvisable provision. Probably it is intended to prevent mere associations of usurers from obtaining the benefits and privileges of the law while demanding usurious rates. It will be remembered that the Registrar of the Friendly, &c., societies in England expressly states that the loan societies under the English Loan Societies Act of 1840, are frequently mere usury traps, though enjoying large fiscal privileges. But the fixing of a maximum often leads to the practice of charging that maximum; the ignorant lender is beguiled into believing that the rate fixed as a maximum is the proper rate (dharma vatti).

‡ It will be noted that the present law only extends to loans granted 'by authorized institutions'; hence all individual lenders are excluded from the benefits of this chapter, and also all banks or societies which have not been duly authorized. The authorized institutions are mentioned in sections 29, &c., below.

Apparently the words 'for one of the following purposes,' apply to 'proprietors' as well as to 'associations': the loans must be for one of the purposes mentioned, whether granted to individual owners or to associations.

§ *E.g.*, sheds for cleaning cotton before despatch to market, or for curing tobacco and turmeric, or for boiling down cane-juice into jaggery, would, in India, come under this head.

20. [Provides that a mortgage given by a proprietor as security for an agricultural advance by means of *a cash credit* * shall take rank (among other charges) from the date of registration.]

21. The ordinary rates of stamp duty and registration fees are reduced to one-half for documents made under this chapter including those made under section 20 (relating to cash credits).

22. In contracts admitted to the benefit of this law, the lending institution may acquire in its favour a special privilege over the *plus*-value which has resulted to the farm from the improvement effected by the loan. When it enjoys this privilege it takes precedence over all creditors though registered prior to the date of the loan,† without prejudice to its rights under the ordinary law as mortgage creditor for any balance.

For the validity of this privilege it is necessary to enter it specifically on the margin of the entry of the mortgage in the registration books.

23. It is also necessary for the validity of the privilege, that within 60 days from the date of registering the mortgage deed, a report on the condition of the farm before the improvements, shall be drawn up by an expert for the Judge of the civil court at the instance of the contracting parties, and deposited in the records of the civil court having jurisdiction.

A similar report is to be sent within 60 days from the date of completion of the work in order to prove the amount of the *plus*-value which has resulted from the improvement.

A public copy of each of the reports must be sent to the registration office to be filed with the entry of the mortgage deed.

(Other paragraphs require that a notice regarding the first and second reports shall be twice advertised in the local gazette, that the work shall not be begun till the expiry of one month without notice of objection after the advertisement regarding the first report, nor shall the second report be considered irrebuttable till the expiry of a similar period without such notice.)

24. Should the loan amount be expended otherwise than on the proposed improvement, or should the value of the improvement be allowed to deteriorate by at least one-tenth through the fault or fraud of the owner, the institution shall be at liberty to claim the cancelment of the contract as per section 1165 of the Civil Code.

In such case the court which decrees the cancelment shall of necessity order that the borrower shall lose the benefit of the reduction of stamp duties, registration fees and taxes on the mortgage.

If the creditor does not move for the rescission of the contract the revenue authorities may obtain an order from the magistrate in the sense of the preceding paragraph.

25. In all cases under the present law the lending institutions shall enjoy the privileges of procedure possessed by institutions of land credit for the collection of their dues.

26. Associations ‡ which enjoy fiscal privileges in the collection of their dues, are permitted to charge particular (classes of) contributions by way of mortgage, as security for any loans contracted by them for one of the purposes mentioned in section 18.

Such loans can only be contracted with the previous approval of the provincial (district) authorities, and an ordinance to that effect must be attached to the contract deed and form an integral part of it.

27. Should any association which has borrowed as in the preceding section, for any reason omit to impose upon its joint funds the contributions necessary to pay off its debt, the provincial (district) authority shall, as of right, order the entry in its accounts of the sum due, and shall then proceed to collect the same either by the village tax-collector or by a special officer, all charges being debited to the association.

28. (Omitted.)

Chapter III.—The Grant of Agricultural Credit and the Issue of Agricultural Debentures. (Cartelle Agrarie.)

29. Ordinary credit banks, co-operative banks and savings banks, singly or associated, are authorized § to grant agricultural credit in conformity with Chapters I and II of the present law.

30. Government may, by royal decree, in conformity with the present law, grant permission to the above-mentioned institutions to issue agricultural debentures (cartelle agrarie), repayable by amortization (sinking fund) and bearing interest, to the amount of five times their capital either paid up or specially assigned to agricultural loans, provided that they are in possession of mortgages ‖ for an amount equal to half of the said paid up or assigned capital.

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* Loans by means of cash credits are not subject to the restrictions mentioned in section 18 though guaranteed by a mortgage, for they do not come under the conditions mentioned in section 19. Hence an advance by cash credit may be used for any agricultural purpose, and if so used, will receive the benefits of this law, viz., those of section 21.

† This is a general provision in the matter of loans granted for improvements, since the security of other creditors is, in fact, improved by the employment of the loan.

‡ Apparently this includes not merely communes, but associations for irrigation, agricultural societies, &c. In Germany and France, and, apparently, in Italy, there are numerous drainage and irrigation associations of compulsory and voluntary formation.

§ Under section 1 it is only 'institutions' which obtain the benefits of the present law, and only those institutions which have been 'authorized.'

The words 'ordinary credit banks' (istituti di credito ordinario) are very vague, and would let in those societies (so-called) of usurers which it is the object of the law to exclude; it is only necessary, as in this Presidency, for a money lender to form a 'company' with half a dozen men of straw and call himself a bank, to obtain the benefits of the law as an 'institution of ordinary credit;' *cf.* the English Loan Societies under the Act of 1840.

‖ Presumably the word mortgage (ipotecari) includes loans enjoying 'privileges' under this act, though M. Durand is of a contrary opinion. The English bill of sale, which largely corresponds to the privilege sanctioned by this law, is a mortgage without possession of movables. Possibly, however, only land mortgages are intended, as being solid guarantees for the "cartelle agrarie."

It will be observed that the debentures are secured (1) by mortgages to the amount of half the capital, (2) by the mass of loans enjoying the privileges created by this act.

The mortgages, which must have previously been accepted without any corresponding issue of debentures, must be replaced by similar mortgages as soon as any are paid off.

The institutions must, as soon as they have been authorized to issue agricultural debentures, create such debentures of a value equal to that of the above-mentioned mortgages; these shall be kept in the safe of the institution, and replaced as soon as any are issued by similar new ones.

All mortgages registered in favour of the above institutions, are assigned, as preference securities, in guarantee of the interest and repayment of the debentures. The debentures retained in the safe are, moreover, specially assigned in guarantee of the debentures in circulation.

31. The Government may, by royal decree, authorize the grant of agricultural credit and the issue of agricultural debentures by mutual associations of proprietors, provided that the aggregate value of their estates shall be not less than £120,000.

The articles of such association to be approved by the above decree on the motion of the Minister of Agriculture, &c., must recite the conditions to be fulfilled by the members, and the amount of the working capital.

32. Agricultural debentures shall issue in representation of loans made, whether under Chapter I or Chapter II of this law*: but their nominal value shall not exceed that of the sums actually paid over to the borrowers.

The duration of such debentures may be indeterminate. Debentures issued against loans made under Chapter I may mention a definite date at which they shall be repaid. Institutions issuing debentures must withdraw and cancel debentures without definite date, in proportion as the loans which they represent are repaid and to an equal value.

Agricultural debentures shall bear the name of the issuing institution, their date and serial number.

A special set of rules, issued by royal decree after approval by the Council of State, shall determine, in consonance with this law, the details regarding the creation, issue and recall of their debentures.

33. Loans shall always be paid over in cash. The agricultural debentures shall be registered by the issuing institution. But Government may authorize agricultural credit institutions to pay the amount of the loan in debentures.†

34. Institutions authorized to deal in loans and to issue agricultural debentures may be represented by special agencies, or by associations of proprietors and tenants of farms, and may delegate to them, as also to credit institutions whether ordinary or co-operative, and to savings banks, their powers as regards all operations of agricultural credit.

35. For the purposes of this law institutions authorized to issue agricultural debentures are placed under the supervision of the Minister of Agriculture.

They must send to such minister monthly returns showing the movement and financial position of their debentures.

36. Institutions and saving banks which grant credit in conformity with Chapter I of this law may without cost transfer their claims as creditors to other institutions or savings banks which have the right of issuing agricultural debentures These latter institutions may then issue agricultural debentures against the claims thus transferred.

37. The fees due to the registrars of mortgages and to notaries for all operations under this act are reduced to one-half of the legally sanctioned fees.

38. All banks of issue may be authorized by royal decree to grant agricultural credit under this law.

39. The Government may authorize the transformation of grain lending institutions‡ (monti frumentarii) into single or joint associations for agricultural credit working under the present law.

(Sections 40 to 43 are omitted, being transitory or local in their nature.)

RULES§ FOR CARRYING OUT THE ITALIAN LAW OF 23RD JANUARY 1887 REGARDING AGRICULTURAL CREDIT.

CHAPTER I.—LOANS AND ACCOUNTS CURRENT.

1. The document on which, according to section 3 (1) of the law, the special privilege is based must contain—

(1) an exact mention of the status of the borrower whether proprietor, tenant, metayer or tenant in participation of the farm;
(2) a description of the goods and produce over which the privilege is established;
(3) a statement of the precise rights enjoyed by the borrower over the said goods or produce;
(4) an express mention of the privilege and its duration, and a reference to the sections of the law relating to it, whether paragraphs 1, 2, or 3 of section 1, or section 2 of the law;
(5) a statement of the amount for which the privilege is established, the interest agreed upon and the object to which the sum borrowed is to be devoted as per section 7 of the law;

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* The debentures are thus of two classes and have two different guarantees: the one set are based on loans guaranteed by the privileges (bills of sale) of Chapter I; the other on mortgages under Chapter II. See the rules of 1888; pp. 52 and 53 *infra*.

† In most of the German Landschaften the loans are issued in debentures, which the borrower cashes at the market rates.

‡ *See* Vol. I, pages 195–196. This section is the result of the proposals to transmute these ancient and useful institutions into mere money-lending banks, a change of doubtful present utility.

§ Such rules as are not of importance for the purposes of this report, are not translated.

(6) a note whether the privilege is in guarantee of bills of exchange or of an account current.

When the goods or produce may, by special arrangement, be moved to places other than the farms to which they belong, express mention must be made of the fact.

* * * * *

5. The maximum interest chargeable by each lending institution under section 15 of the law will be fixed annually or oftener by the Minister of Agriculture, Industry and Trade, in concert with the Finance Minister, and after taking the opinion of the several institutions. Within such limit the institutions may fix their own rates, which must be notified to the Minister of the Agriculture, &c.

Chapter II.—Mortgage Loans for Agricultural Improvements.

6. Mortgage loans granted under this law may be granted for the following in addition to the objects mentioned in section 18 of the law, viz. :—

(1) the fencing of the farms;
(2) the digging and systematizing of drains;
(3) the formation of new vineyards, olive-yards, mulberry and orange gardens;
(4) the introduction of high farming with the necessary implements;
(5) the amelioration of the soil;
(6) the embankment of slopes and plains;
(7) forest roads;
(8) re-afforestation;
(9) vats for retting fibre plants.

7. The mortgage deed must contain—

(1) a statement of the improvements, &c., to which the loan amount is destined;
(2) a description of the farm offered in mortgage;
(3) the duration of the loan, the number, amount and date of each instalment in repayment;
(4) rules for the issue of the loan by instalments corresponding with the progress of the work;
(5) the date of interest;
(6) the establishment, when such is the case, of the special privilege over the *plus*-value resulting to the farm from the improvement effected by the loan, in accordance with section 22 of the law;
(7) a note of the order of the provincial (district) authority when the loan is one granted to an association and secured by the assignment of the common subscriptions, as per section 26 of the law;
(8) the declaration of prior creditors as per section 28 of the law;
(9) a statement of the domicile selected by the borrower for court purposes.

Chapter III.—Agricultural Credit Operations and Agricultural Debentures.

* * * * *

12. In order to obtain the power to grant agricultural credit under section 31 of the law, mutual associations of proprietors must forward to the Minister of Agriculture, &c.—

(1) the memorandum of association of the society;
(2) the articles mentioning the duration of the society, a summary with valuation of the immovable property contributed by each member, the conditions of association, the amount of the working or guarantee capital, as per section 31 of the law;
(3) a report on the above immovables made by two experts appointed for the purpose by the civil court on the motion of the parties.

The above properties must be free from mortgages, or at least such portion of them as amounts to the required value of £120,000, and must be such as will yield a fixed income during the whole term of association.

13 to 19 contain rules regarding other societies.

20. After the Minister of Agriculture as ascertained that the institution which requests permission to issue agricultural debentures, has fulfilled all legal requirements, he will obtain a royal decree authorizing such issue, the opinion of the Committee for Agricultural credit mentioned in the following section being first considered.

21. Upon the motion of the Minister of Agriculture a royal decree shall establish a consultative committee * charged with the duty of giving its vote on matters relating to agricultural credit.

22. The details relating to the issue and withdrawal of agricultural debentures are settled by a special set of rules.†

23. The Minister of Agriculture shall annually present to Parliament a report on the operations of agricultural credit.

RULES ‡ RELATING TO AGRICULTURAL DEBENTURES, DATED 27th MAY 1888 AND 10h JANUARY 1892.

Chapter I.—Issue of Debentures.

[Agricultural debentures are of two classes: (1) those issued under chapter I, (2) those issued under chapter II of the law. They are to be of different colours, and their nature legibly printed.

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* See the decree, dated 5th September 1888, translated below.
† See rules next following, dated 27th May 1888 and 10th January 1892.
‡ The rules being lengthy are abbreviated and many are omitted.

They are to be taken from a stub with counterfoils and serially numbered and dated; both stub and debentures are to be duly signed by officers of the issuing institution: debentures under Chapter I shall have a face value of £4, and under Chapter II of £8. They may be either to bearer, or personal (nominative): the interest coupons may be to bearer in both cases, and shall be numbered to correspond with the debentures.

In issuing debentures under Chapter I the following is the rule: the institution effects loans with the half of its capital paid up or specially assigned for the purpose, and at the same time creates an equal quantity of debentures which it retains in stock. As new loans are granted these debentures are successively issued to the amount of the loans and at the same time, fresh debentures are created to a similar value and placed in stock.]

CHAPTER II.—TRANSFER, EXCHANGE, AND ISSUE OF DUPLICATES.

* * * * *

CHAPTER III.—WITHDRAWAL AND REPAYMENT.

[The rules provide for a half-yearly public drawing by lot and for purchase in open market; the amount withdrawn must equal the amount paid in during the half-year on account of the capital of loans. Prior to each drawing the bank must (rule 28) send to the Minister of Agriculture a statement showing (1) the value of loans and debentures outstanding; (2) their dates of issue and expiry; (3) the amount paid in on account of the capital of the loans (sinking fund); (4) the value of debentures bought in by the bank during the half-year; (5) the amount of any loans. The amount shown in (3) less (4) gives the value of the debentures to be withdrawn by lot.

The drawings must be in presence of a Government agent with the usual precautions and formalities, as prescribed by the Minister of Agriculture. The debentures drawn must be presented with the unexpired interest coupons; the value of any missing coupons will be deducted at payment, but the bank will then pay the value to any person who presents them. All debentures drawn by lot will be repaid in cash at par. The details of this and the preceding chapter are unnecessary for the present appendix, which is not intended as a manual.]

CHAPTER IV.—GOVERNMENT SUPERVISION.*

37. Institutions granting agricultural credit together with the issue of debentures are, so far as such business is concerned, placed under the supervision (vigilanza) of the Minister of Agriculture, Industry, and Trade, who exercises such supervision through delegates; these have the right of inspecting all the books and documents relating to such business.

38. Institutions authorised to issue agricultural debentures are bound immediately to communicate to the Minister all resolutions of their directors on operations under Chapter II of the law.

39. At the end of every month each such institution must, according to section 35 of the law, send to the Minister a statement of the movement and financial position of the debentures; this statement must be drawn up in the form prescribed by the Minister and must show for each series of debentures the number and value of debentures held permanently in the safe, the value of the loans actually granted during the month; the number and value of debentures taken from the safe and issued in representation of such loans, the amount of debts repaid to the institution; and the losses of the month.

40. The above institutions must also despatch to the Minister: (1) the annual balance sheet; (2) a statement of the mortgages in arrears or in dispute; a statement of the loans carrying the privilege mentioned in Chapter I of the law not paid up at due date or in dispute. They must also furnish any other information called for.

41. The Minister is entitled to subject all such institutions to periodical inspection by means of his delegates. Such inspections shall specially ascertain (1) the actual existence of mortgages to the value of half of the capital paid up or specially assigned as per section 30 of the law, and the correspondence of such loans with the amount of debentures held in the safe; (2) the correctness of the tables and statements mentioned in rules 28, 39 and 40 *supra*, in view to ascertain the equilibrium between the debentures and the loans granted, and the regularity of the bank's methods; (3) the fact of the cancellation of the withdrawn or paid off debentures. These inspections must take place at least quarterly.

DECREE ESTABLISHING UNDER THE MINISTER OF AGRICULTURE, &c. (ITALY); A CONSULTATIVE COMMITTEE FOR AGRICULTURAL CREDIT, 5TH SEPTEMBER 1888.

1. A consultative committee for agricultural credit is established in the department of the Ministry of Agriculture.†

2. The duties of the committee are:—

(1) to give an opinion upon the requests of institutions granting agricultural credit which propose to issue agricultural debentures;

(2) to study any developments which may be feasible in the organization of agricultural credit;

(3) to give an opinion on such other matters pertaining to that subject which may be laid before them by the Minister of Agriculture.

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* The nature of this supervision while defective in many respects, seems unnecessarily exacting in others, as in the nature of some of the returns required.

† The deliberations of this committee are valuable and are regularly published by the Minister of Agriculture.

3. The committee is composed of 12 members, appointed by royal decree and retaining office for three years ; one-third resign each year with faculty of re-appointment. Resignation is determined by lot in the first three years. The Director-General of Agriculture, and the director of the section on Industry, Trade and Credit are *ex-officio* members.

A Commissioner appointed by the Minister (of agriculture) for the supervision of credit institutions, shall hold the office of secretary to the committee, and shall have a voice in the committee but not a vote (con voto consultivo).

The committee shall choose annually its chairman and vice-chairman.

4. The office of member is unpaid. Members who do not live in Rome shall receive their actual travelling expenses and a daily allowance (during meetings) of 15 lire (12′ 6).

5. The meetings of the committee shall be convoked by the Minister, who will indicate the subjects for discussion.

6. The minutes of the meetings shall be published in the " Annali del credito e della previdenza."

LAW RELATING TO AGRICULTURAL CREDIT IN ROUMANIA (1881).*

Chapter I.—Character, Object and Duration of the Loan Offices.

1. In the chief town of each district shall be established an Agricultural Loan office ; each office shall be independent of the others, and have the status of a society.†

Each office may establish within its district central or communal agencies.

2. (Duration only 20 years, renewable with the permission of Government.)

3. These loan offices are to provide agriculturists and rural industries with the necessary capital.

Chapter II.—Capital.

4. The capital of each office shall be from £6,000 to £12,000, as determined by Government according to the needs of each district. Such capital may be increased by resolution of the general meeting, confirmed by Government.

5. The capital shall be divided into shares, which shall be personal, and can only be held by Roumanian agriculturists or rural labourers (industriels agricoles).

6. Such shares form a charge upon the assets of the office, and are entitled to participate in the profits.

7. Until such shares are fully paid up, the capital of each office will be contributed free of interest by the State and by district funds, viz., two-thirds by the former, and one-third by the latter, on which proportionate dividends will be paid.

These advances will be re-paid in due proportion as the shares are paid up.

8. An office shall be declared open and entitled to begin business as soon as its capital shall have been paid up, whether by the State, by the district, or by shareholders.

9. From the net profits shall be formed a reserve intended (1) to cover any losses of capital ; (2) to supplement the annual dividend till it shall reach a total of 5 per cent.

10. The reserve shall be formed from an annual retention of 10 per cent. of the net profits.

11. When the reserve shall have attained the amount of one-tenth of the capital, the retention mentioned in section 10 may cease, but shall be renewed should the reserve fund be impaired.

Chapter III.—Organization and Administration of the Loan Office.

12. The administration is entrusted to a manager elected by the general meeting for five years, and re-eligible. He must deposit, as guarantee, shares of the society amounting to one-fortieth of the capital.

13. The manager shall be supervised by the commissioners, of whom two shall be elected by the general meeting, and one by Government: all for five years.

14. The manager and commissioners shall be salaried.

15. Until the society is fully constituted, the manager and two of the commissioners shall be appointed by the State, and the third commissioner by the district.

16. and 17. (Relates to the general meeting : each share has a vote up to a maximum of five.)

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* Translated into French from Roumanian by M. Louis Durand (Lyons), Secretary-General to the Fourth Congress of the 'Popular Banks of France,' 1892, to the report of which the above law forms an appendix.

The law was not successful ; more than a dozen modifications were made up to 1887, necessitating in 1891 a fresh bill, which is translated below, and, eventually (1894), a new law, also translated.

† The loan offices were to be joint stock societies, yet *quasi*-public, working under the control of Government, with certain large privileges ; the system was doomed to failure from the beginning, for while the State desired the benefit of the peasant, the offices sought the profit of their members ; hence antagonistic views and methods : in the words of the " statement of objects and reasons " to the new bill " the joint stock society is a trader which cares little for the needs of the people ; in season and out of season it demands the satisfaction of its claims without pity or consideration, while profiting by the privilege which enables it to obtain its dues by summary process." (*See* section 33 of the law ; also *see* Vol. I, p. 182).

18. The Minister of Finance shall always be entitled to examine the affairs and administration of the society.

19. (Officers of the society who deal with its funds are to be regarded as public servants in so far as regards responsiblities and penalties.)

20. The shares shall be of £4.

Chapter IV.—Business and Privileges of the Loan Offices.

21. Loan offices shall undertake only the following business, viz. :—

(1) The discount and negotiation of the bills of agriculturists and rural labourers;
(2) The lending upon the pledge (*see* section 27) of agricultural produce and stock, or upon the produce and stock of industries dependent upon agriculture;
(3) The receipt of deposits or savings from agriculturists and rural labourers;
(4) The grant of loans to such persons on the deposit of Government paper, or of securities guaranteed by the State.

22. The offices shall not demand more than 7 per cent. per annum as interest except when the rate of discount at the National bank exceeds that rate.

23. (Omitted.)

24. The offices shall not lend for terms beyond nine months.*

25. Loans shall be based upon bills to order signed by two solvent agriculturists or rural labourers who shall be jointly responsible.

26. Sums paid in on deposit or as savings shall bear interest, and when they reach the value of a share may be converted into a share.

27. In substitution for sections 1685 and 1686 of the Civil Code the delivery † of a pledge shall for the purposes of the loan offices, be considered as made when the agreement has been executed and from the date of its registration, in so far as regards standing trees, produce of the soil of all kinds, whether still attached to the soil or separated from it (*i.e.*, crops whether standing or reaped), whether stored in the cellars, barns, and granaries, or lying in the open, whether standing in sheaves, heaps and stacks, and generally, as regards all bulky goods which are difficult to transport and warehouse.

The delivery of a pledge shall be similarly regarded as though actually made in respect of the cattle and farm implements which cannot be removed from the farm without injury to its working.

28. The above privilege shall not be binding as against third parties until the date of actual registration in a special register ‡ to be kept for the purpose in the village in which the goods are situated.

29. On the expiration of the loan, the property pledged may be sold (by the office) without resort to a court, and in conformity with the provisions of this law (*i.e.*, in case of any arrears on such loan).

30. A debtor who shall wilfully and in bad faith alienate, waste, remove, or allow the loss of any goods pledged under these provisions shall be punished for breach of trust.

31. Loan offices shall enjoy in respect of debts due to them, a special privilege (prior claim) over the movables entered in sections 26 and 27 (*i.e.*, over the deposits in the office, and over the farm stock, produce, &c., of the debtors).

This privilege shall take rank immediately after the claims due for court fees, for funeral expenses, and for the custody of the goods in question.

32. Every act of borrowing from a Loan office will be considered as an 'act of commerce.' All parties to such borrowing shall be liable to the jurisdiction of the Commercial Court, but Chapter III of the Code of Commerce shall not be applicable to them. §

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* This period is much too short as a maximum, and the law does not provide for any prolongations.

† This section and those following up to 31 inclusive provide for the pledge without actual delivery, of movables, &c., mortgaged for a loan, after the manner of Italian and Belgian special laws, translated immediately above, and of the English bill of sale.

‡ The following rules appear in the Government set of rules framed under section 35 :—

71. The manager must send to the mayor of the commune (head of the village) in which the goods are situated, a request for registration, together with an extract from the loan deed showing the name and address of the debtor, the sum due, the number or quantity, description, &c., of the goods charged.

72. For carrying out the provisions of rule 70 (the same as section 28 of the law) the mayor of each commune shall keep a special register, in the first column of which he will enter, word for word, the extracts sent to him by the Loan office. In the second column will be entered partial and complete discharges of the goods from the claims of the office. [This rule may be compared with the rules regulating communal societies for purchasing cattle in Canton Thurgau (Switzerland) : *see* Vol. I, pp. 161 and 162].

In this register all modifications of the original contract shall be entered by marginal note.

After registration the mayor must send to the manager a certificate of the registration, showing its date, serial number, and page of the register.

The registers must be signed, sealed and initialled (on each page) by the Chief Judge of the Commercial Court, or of the Civil Court where there is no Commercial Court.

These registers shall be open to the inspection of the public, and certified extracts may be granted.

73. Mayors who do not carry out the provisions of the previous rules are responsible for all losses caused by such failure. If they make incorrect transcriptions in these registers they will be liable under the Penal Code.

74. The formalities recited in the foregoing rules are exempt from stamp duty, registration fees, &c., in conformity with section 34 of the law (*i.e.*, for five years only).

75. The goods charged must be insured if there are in the neighbourhood any societies which undertake such insurances.

A loan of this class can only be granted after a previous valuation of the goods, which shall be made by special valuers belonging to the office, assisted by the mayor of the commune.

§ Apparently this is similar to Chapter III of Book I of the Italian Code.

33. Execution upon the goods of a debtor shall be levied in conformity with the law of distraint or dues to the State.*

34. The business † of a Loan office (les operations des caisses) shall be exempt from stamp duty for the first five years of its existence.

35. A public ‡ set of business rules, sanctioned by royal decree, shall regulate the application of this law.

BILL FOR THE PROVISION OF AGRICULTURAL CREDIT (ROUMANIA).§

1. An Agricultural bank shall be established at Bucharest, with a branch in the chief town of every district.

2. The bank shall comprise two divisions: the one for lending to agriculturists and rural labourers the capital necessary for agriculture and for the industries dependent on it; the other for lending to agriculturists under the law of 1889 (*i.e.*, to peasants who have bought State lands and require capital either for working the lands or for redeeming the perpetual rent-charges).

Capital.

3. The foundation capital of the bank shall, for the first division, be £800,000 entirely paid up by the State. (*N.B.*—The capital was fixed at this sum because it represents the total loan issue under the former law.)

4. The capital for the second division shall be procured by opening a cash credit with a bank, preferably the National bank, which may rise to £120,000, and shall be repaid by the State by an issue of stock. Should larger sums be required the bank may obtain an authorization from the legislature for an increase of the cash credit.

5. From the annual net profits, arrived at by deduction of all expenses, as shown in the balance sheet, 10 per cent. shall be set aside to form a reserve; the remainder shall be paid over to the treasury.

6. When the reserve attains the amount of one-fourth of the capital of £800,000, the share set aside for the reserve may be discontinued, but shall be renewed should the reserve be impaired.

Organization and Management.

7. The agricultural bank shall be managed at its Central office by a director, with a sub-director, both appointed by the Minister of Finance under royal decree, and by a staff as indicated in the statement below (section 13). Branches will be managed by a manager and staff as mentioned below.

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* Probably this is not unlike the Italian Law for the distraint of goods for sums due to the State: *see* translation of certain sections of that law in this appendix.

The following are the Government rules on this point:—

81. If the loan is not repaid at due date the manager of the Loan office shall forward to the Collector (Caissier-Général) of the district an extract from the loan contract together with a request for execution against the defaulter.

The Collector is bound at once to enforce execution under the formalities enjoined by the law for recovery of revenue, until the arrears are paid over to the revenue officers (les agents du fisc). Such payments shall at once be made over to the Loan office which shall give the necessary voucher.

82. (All steps are to be taken and objections disposed of in accordance with the revenue recovery law.)

It will be noted that the above privilege is due to the *quasi*-public nature of these so-called Joint Stock Societies. They were formed subject to Government rules, under Government supervision, and their management was under Government control; hence the almost unique privilege of recovery of dues through Government revenue officers.

† This provision is not clear, for the public rules issued by Government under the next section provide, in rule 84 that "the loans borrowed *by* the Loan offices (contractés parles caisses) shall be exempt from stamp duty for five years. Possibly the words 'les operations des caisses' refer only to borrowings by an office, and not to loans made by it. Rule 74 (*q.v.*) also provides certain exemptions, but no others are mentioned in the rules.

It is, however, to be noted that in Italy the laws of 1874 on *stamps* and registration seem clearly to exempt all operations of a co-operative society from stamp duties and registration fees for the first five years of its existence. The heading to section 26 of the stamp law is as follows:—"Exemption of co-operative or mutual societies from every "stamp duty ('da ogni tassa di bollo') for five years from its foundation, provided that its capital does not exceed "£1,200." A similar note is made to section 148 of the law *relating to* registration fees (sulle tasse di registro). These exemptions are expressly continued for co-operative societies in the amendment law of July 1887. Hence, it is probable that the Roumanian law grants a similar privilege.

‡ This set of rules has the force of law and is issued in completion of the law by royal decree: it is not a set of rules issued by the bank. Rule 99 says: "The societies for agricultural credit (Loan offices) shall work in conformity with the law, and with the present set of rules which shall serve instead of articles. But a society may provide its own special set of articles as soon as it has repaid to the State and to the district the whole of the amount granted to it as foundation capital."

The only rules needing translation are those printed as foot-notes to sections 27, 28 and 33.

§ As already stated, the law of 1881, in spite of its dozen amending Acts, was a failure; the so-called Joint Stock Societies, intended as Loan offices, were not satisfactorily formed, for the public did not take up their shares, while the action of the societies in following up their dues was considered as opposed to the interests of the peasants. Hence in 1891 (?) the Government proposed a new law of which the text is here given.

The text of the previous law has been given rather as an object lesson in failure, than as an example for imitation. The provisions of that law are not very dissimilar from proposals made at various times for India, and the failure of the law, with its resulting cost to the State, carries a suggestive lesson for India. Moreover, the provisions of this attempt at *quasi*-State credit are objectionable from other points of view, in that they aim merely at cheap credit, and not at the reformation of habits and customs through the powers of association, of self and mutual help, of thrift and prudence, &c.

The provisions of the bill appear equally unpromising of real success. The leading idea is a Central Government institution with a branch office in each district: the old *quasi*-public Joint Stock Societies are abolished, and an attempt is to be made to substitute purely State banks. The attempt seems objectionable in almost every way.

8. (Persons who may not be appointed to the posts mentioned in section 7.)

9. All officers of the bank whose monthly pay amounts to £6 or more shall be appointed by royal decree.

10. All officers of the bank or public servants, and are entitled to pension in common with other public servants, their pay being subject to the usual deduction, according to the law regarding pensions.

11. The director is charged with, and is responsible for the management of all business. He is, moreover, the Inspector-General of all the branch offices, and for such purpose has the same rights as the State Inspectors of Finance. The sub-director works under the orders of the director, and acts for him in case of necessity.

12. The Minister of Finance may, by his inspectors and sub-inspectors, examine at any time the business and management of the branches.*

13. (Statements of the staff and their pay.)

A royal decree shall appoint 64 auditors for the whole territory, who shall be distributed among the branches by the Minister of Finance.†

14. The directors of the branch offices shall deposit security of £200 in Government paper (their pay is to be £240.)

15. Persons entrusted with the charge of the funds of the bank in any way are responsible as though entrusted with public funds.

16. (Omitted.)

OPERATIONS AND PRIVILEGES OF THE AGRICULTURAL BANK.

17. The agricultural bank shall only deal in the following business:—

(1) in loans on pledge of cattle, produce and agricultural stock, and of the produce and implements of industries dependent upon agriculture;

(2) in loans to peasants for the purchase of cattle, seed and agricultural implements. These loans shall only be made upon the signature of the borrower and the security of two other solvent inhabitants of the village, and upon an agreement that the cattle, seed and implements shall be pledged ‡ to the bank within 15 days (of purchase). Failure to make such pledge will render the borrower liable to the penalties for breach of trust, punishable under the Penal Code;

(3) in the receipt of deposits on account current and of savings deposits from agriculturists and rural labourers; §

(4) in advances to such persons upon the deposit of public securities or paper guaranteed by the State;

(5) in such business as may be entrusted to it by the National bank, pending the establishment of district branches by the latter, as well as in such business as may be turned over to it by the insurance companies for the insurance, by borrowers from the bank, of agricultural and industrial implements, stock and produce.
Bills in acknowledgment of a debt based upon pledge shall be negotiable and transferable by endorsement.

(6) (in loans under the second division of the bank; these are payable to the borrowers by instalments.)

18. The bank is prohibited from engaging in any other business than that recited in section 17, and may hold no immovable property save such as is absolutely necessary for its business.

19. No advance to any single person shall, whether granted in one or more loans, exceed £40. ‖

20. The bank shall not charge interest at more than 5 per cent. above the rate of discount current at the National bank, and in no case shall such interest exceed 10 per cent. ¶ without the consent of the Minister of Finance.

Debts not settled at due date shall pay at the rate of 2 per cent. per annum in addition to the contract rate.

No other charge whether under the title of expenses of administration, commission, &c., shall be made, save only such charges as may become due under the law of distraint.

21. The rate of interest may, with the consent of the Minister of Finance, be changed quarterly.

22. (Omitted.)

23. The bank may lend upon pledge only for terms of three, six, or nine months at the choice of the borrower, except in the case of loans under section 17 (2) for the purchase of cattle, &c., which may be made for periods up to three years, and in the case of those under 17 (6) which may be repayable by annuities.

24. Deposits by private persons shall bear interest as determined by the bank with the approval of the Minister of Finance; in no case shall such interest exceed the rate of discount at the National bank.

25. In substitution for the provisions of the Code of Commerce, loans under section 17 (2) are at due date demandable and leviable without notice, summons, or other judicial process whatsoever, but solely by ordinary distress as by the law for the recovery of revenue.

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* The Bill does not give power to inspect the bank itself: this is probably a clerical error, since no other form of supervision is provided in the bill, so that the director would be wholly uncontrolled.

† Since two auditors are allowed for each branch, there are apparently 32 districts in the kingdom of Roumania.

‡ *Cf.* the practice in Thurgau, Switzerland, and under the Irish Loans Act of 1843; *see* p. 162 of Vol. I.

§ The bank excludes deposits from non-agriculturists: the reason is not clear.

‖ This sum was fixed upon because the experience of the societies under the law of 1881 showed that this was a very general maximum.

¶ The maximum under the Act of 1881 is 7 per cent.: apparently this was found too low.

26. The live stock, seed, and agricultural implements bought with the sums advanced by the bank under section 17 (2), may not be alienated or pledged to third parties, or seized in execution (*i.e.*, for debts due to third parties) until after the complete payment of principal and interest to the bank.

27. (Similar to section 27 of the law of 1881, *q.v.*)

When the goods pledged may have been transformed by an industrial process, the new product shall be considered as the security of the bank.*

28 to 33. (Similar to the corresponding sections of the law of 1881.)

34. Demands and bonds for loans obtained from the bank shall be exempt from stamp duty.

All correspondence with and applications to Courts and processes issued at the request of the bank are exempt from stamp duty, but the bank must pay the special tax granted to bailiffs, and the cost of publications in the official gazette as required by the revenue recovery law.

35. All letters and packets of the bank, and all addressed to it by the authorities or by the National bank shall be free of postal charges.

36. The revenue collectors of the State shall serve as agents † of the bank for the purposes of valuation, verification and collection, and for the renewal and execution of contracts.

They shall be granted such remuneration as shall be fixed by the Minister of Finance.

37. Collectors, mayors, and notaries shall be liable civilly and criminally for any infraction of their duties. The bank shall enjoy a prior claim (privilege) over the property of these officers, which shall take rank immediately after that of the State.

38. (Omitted.)

39. The deeds of the bank shall be authenticated, upon demand of the parties, by the mayor of the village where the borrower resides.

When such mayor ‡ can neither read nor write the document will be authenticated at the request of the parties by the deputy-mayor, or by any literate village councillor; if all are illiterate, it shall be authenticated by the judge of the canton in which the borrower resides or in which the branch office is situated.

The bank need not be represented before the authority which authenticates the deed, which may be verified by the authority in the sole presence of the borrower.

TEMPORARY PROVISIONS.

40. The Minister of Finance will repay (to share-holders) the value of the shares issued up to date, and will return to the districts (district councils or boards) the sums advanced by them, he will also put into liquidation the existing societies for agricultural credit.

LAW OF 1ST APRIL 1894 ESTABLISHING AN AGRICULTURAL BANK (ROUMANIA).§

1. The present law authorizes the establishment of an agricultural bank for the purpose of assisting agriculturists with short term loans, to be granted with or without the pledge of produce, cattle, and agricultural stock.

2. The capital of the bank shall at first be £200,000 in 10,000 shares of £20 each. The capital may, with the sanction of Government, be increased by successive issues up to £800,000.

3. The constitution of the bank shall follow the rules laid down by Chapter I of Part VIII of the Code of Commerce with the exception of section 138 the bank being subject solely to the authorization of Government. ‖ With this object the bank shall, after its establishment, enjoy in its relations with borrowers and others, the special regulations hereinafter laid down and which depart in its favour from the ordinary law.

The duration of the bank shall be 20 years.

4. The head-quarters of the bank shall be at Bucharest.

The bank shall establish, within one year from its foundation, a branch or agency in the chief town of every district. It may also elsewhere establish branches and agencies according to its needs.

Until the establishment of such branches or agencies, the bank is authorized to utilize the staff of the 'credito agricolo'¶ for carrying out, under the bank's responsibility, its business in such places. Such delegation of duties shall not in any way engage the responsibility of the State.

5. A Government Commissioner shall supervise the operations of the bank, and, above all, the issue of the notes mentioned in section 6 (6).

The salary of the Commissioner shall be fixed by Government in consultation with the authorities of the bank, and shall be paid by the latter.

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* *E.g.*, where cotton, &c., pledged to the bank has been spun into thread or woven into cloth, the thread or cloth shall be considered as the pledge.

† These and other privileges are granted, because the bank is purely a State bank.

‡ The mayor of the commune probably corresponds in status very nearly to the head of the village in Madras, as shown by this proviso which contemplates his illiteracy. But he probably lacks the importance due to the hereditary position of the Madras village officer.

§ From the Bulletin for April 1894 of the Italian Minister of Agriculture, Industry and Trade.

This appears to be the form finally assumed by the bill immediately preceding: the changes are very considerable. The practical success and even the wisdom of the experiment seem wholly doubtful.

As the Bulletin was only received in September 1895, the present law is not mentioned in Vol. I.

‖ Section 138 of the Code of Commerce lays down that no company may be formed without the authorization of the local Commercial Court; *see* translation *infra* in the present appendix.

¶ The meaning of this is not known, and it seems probable that the words "credito agricolo" are a mistake for "Revenue officers": *see* section 36 of the bill. This is not the only place where the translation into Italian is doubtful.

6. The bank may engage only in the following operations:—

(1) It may lend, by preference to agriculturists, whether proprietors or tenants, upon mortgage * of agricultural produce, cattle, implements, or on pledge of receipt notes (warrants) for produce deposited in general warehouses,† on crops whether reaped or not from 1st June, on maize, whether stored or uncut from 1st September; all such produce must be insured against hail or fire. The loans must in no case exceed half the value of the mortgaged produce, &c., or the period of nine months:

(2) it may discount the bills of agriculturists of good reputation for solvency, provided that such bills shall not exceed 100 days in *échéance*. It may also discount and endorse the receipt notes (warrants) regularly issued by the managers of general warehouses against crops in deposit:

(3) it may receive deposits from agriculturists whether in cash or in goods, and may open accounts current against such deposits. It may also open similar accounts current upon the mortgage (without delivery) of goods as per sub-section 1 *supra*:

(4) it may make or receive payments on account of its agricultural clients, and may, on their behalf, purchase or sell securities or agricultural produce;

(5) it may undertake, on behalf of agriculturists, the various operations necessary on the deposit of produce in general warehouses;

(6) it may, in order to facilitate business between the agencies, branches and central office, issue notes ‡ (*buoni di cassa*) payable to order and at sight; these notes shall be receivable in payments at Government offices up to an amount equal to half of the paid-up capital of the bank. No such note shall remain in circulation beyond thirty days from date of issue; they shall be transferable by mere change of land;

(7) it may re-discount the contents of its bill case, whether its mortgage notes or agricultural bills, with the National or other bank within the limits of the credits granted by such institutions. Such re-discounts may not be effected beyond one and a half times its capital.§

(8) the bank is expressly prohibited from acquiring immovables, save those necessary for carrying on of its business, from acquiring and holding Government paper, land mortgage debentures, shares or any other class of public security.‖ Exception to this rule shall only be made in favour of the reserve fund which may be invested in paper of the Roumanian Government.

(9) the interest demanded by the bank upon its loans whether against mortgage in accordance with section 6 (6), or on the discount of agricultural bills or pledge-notes in accordance with section 6 (2), shall not exceed by more than 3 per cent. The rate of discount of the National bank. Such interest shall be fixed every month by the Board of Directors, and shall, at the same time, be published as hereinafter provided.

7. From the annual net profits shall, in the first place, be deducted, 10 per cent. for the formation of a reserve. The articles shall settle the mode of distributing the remainder. The above deduction shall cease when the reserve shall have reached the amount of 50 per cent. of the capital.

8. In addition to the publication of the annual balance sheet, the directors must publish monthly an abstract of the business done; they must also send every month a detailed statement of all classes of business to the Minister of Finance through the Government Commissioner.

9. In modification of sections 1685 and 1688 of the Civil Code the pledge (of movables) will be considered as effected, as between the bank and the borrower, upon the mere ratification of the contract, and will take effect from the date of the document indicating the number, nature, quantity and location of the goods pledged; it shall not be needful to remove the goods given in pledge from the possession of the borrower or granter of the pledge.¶

10. Within five days from the date of the contract, the deed of pledge shall, on the request of the bank, be transcribed into a special register kept by the Court of the district in which the estate (immobile) is situated. In every commune a similar register shall be maintained, in which shall be entered a brief note of the pledges registered at the Court, for which purpose the Court shall send to the mayor of the commune an extract of every registration effected thereat.

As regards third persons the rights of the bank shall not take effect until the date of such entry in the register of the commune.

11. The debtor who shall by his own acts, alienate, waste, remove, or allow to be destroyed the whole or part of the goods pledged, after the loan has been effected, shall be punished for breach of trust (*abuso difiducia*). The punishment shall be three months' imprisonment at least and six months'

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* This is, contrary to the general law, a pledge without delivery, as under an English bill of sale; *see* section 9 *infra*, and following sections.

† These appear to be similar to dock warrants or certificates for goods held in bonded warehouses. The general law of pledge, requiring actual delivery of goods pledged, necessitates the provision of general warehouses or store-houses (as for silk, &c,, in Italy), where goods may be stored against advances received.

‡ These seem to be a sort of imitation of the notes of Scotch Banks, the work of which, in country places, was, in early days, when communications were less easy and secure, much facilitated by the issue and receipt of their notes in place of actual cash.

§ This is very vague: presumably it means that the total of the bills, &c., under re-discount may not, at any given moment, exceed one and a half times the capital.

‖ It is evident that the legislature had in view the example of the French Society called "*Le Crédit Agricole*," which started with objects similar to those contemplated by the present law but which lamentably failed owing partly to its dabling in speculative investments in shares and securities. Such investments were, however, only the proximate cause of its failure as a society of agricultural credit. (*See* Vol. I., pp. 125, 126.)

¶ This is the "*gage sans dessaisissement*," the adoption of which, in Europe, has long been advocated as a necessity for agricultural credit: the ordinary civil law does not admit of pledge without delivery. The Italian and Belgian laws were the first to adopt this innovation: *cf.* the English Bill of Sale.

The contract takes effect from the date of the document, not from the date of registration: but *see* section 10, para. 2 for the effect of registration.

at most, and, in modification of section 60 of the Penal Code, the Court shall not admit extenuating circumstances in regard to this special offence.*

12. Saving the preferential right (privilegio) of the landlord for the rent of the year in which the loan shall be effected and of that which follows, beginning with the agricultural half-year (23rd April to 26th October), and saving also all such other prior rights as contemplated by sections 1729 and 1730 (2), (3), (4), (5), (7) and (8) of the Civil Code, the loans of the bank contracted in accordance with section 6 (1), of the present law are specially privileged (have special preferential rights) over the goods pledged.

The bank has the same preferential rights over sums owed to the debtor by Insurance Societies in case of damage to the goods pledged. The bank shall not lend against pledges to the proprietors and tenants of farms mortgaged to the rural land bank until the expiration of the period of such mortgages.

13. Every loan granted by the bank in conformity with section 6 (2) and following sub-sections, shall be considered a commercial transaction.†

All parties to such transactions shall fall within the jurisdiction of the Commercial Courts, but Book III of the Commercial Code shall not apply. ‡ In its relations with other banking institutions the bank shall be wholly subject to all the provisions of the Code of Commerce.

14. Proceedings against debtors in the case of loans under section 6 (1) of the present law shall be carried out according to the rules next following: proceedings for the recovery of any other debts shall be made in conformity with the Code of Commerce.

15. If a debt § shall not have been paid up on due date, the bank shall present an application to the President of the Court of the district in which is situated the property where the goods pledged are located.

The President of the Court shall, within three days at latest, despatch a notice to the debtor that unless within eight days from receipt of the notice he settles his debt, the pledged goods will be sold.

This notice shall be served on the debtor by the Court bailiff, and, in case of the debtor's absence or in case he refuses service, it shall be left at his house and in the communal office.

When the debtor is a tenant, the notice shall in the same manner, be brought to the notice of his landlord; without such formality the proceedings shall not be binding against him (*i.e.*, apparently against the landlord).

16. If, on the expiry of the date entered in the notice, the debt is not settled, the Court shall make an order for the sale of the goods by the Court bailiff.

The bailiff shall make an inventory of the pledged goods and shall draw up a memorandum of the proceedings with the aid of a communal councillor and two witnesses belonging to the commune.

This memorandum shall be signed by the bailiff, by the persons who have assisted him and by the person against whom the proceedings are made: should any of them refuse or be unable to sign, a note shall be made to that effect in the memorandum.

17. A copy of the inventory and of the memorandum shall be delivered to the person against whom the proceedings are made and a receipt for the same shall be taken from him: in case of his absence or refusal to receive the same, the copies shall be left at the communal office.

A second copy shall be deposited in Court from the date of the memorandum no other proceedings or attachment shall have antagonistic effect against the goods in question, even though on account of other privileged dues owed to the bank.‖

18. The sale of the pledged goods shall take place at the end of 15 days from the date of the memorandum by order from the Court.

The Court shall, before making such order, ascertain whether any other attachments or proceedings are in existence against the said goods. Where such proceedings exist and related to dues (crediti) privileged under section 12 of the present law, the Court will order the sale of the goods to such amount as will cover these dues also.

19. After the order has been drawn up a notice of the sale shall immediately be published throughout the taluk (circondario) where the auction is to take place, mentioning the place (date) and hour of sale, and the goods to be sold.

20. At the date fixed for the sale the Court bailiff shall repair to the place where the goods in question are located, in company with a communal councillor and a police officer, or in default of such persons, with two witnesses, and shall proceed to the sale of the goods, lot by lot, until the realization of a sum sufficient to cover the dues. The remainder (if any) of the goods shall be delivered to the owner or to his representative, provided that no other attachment exists against goods: the owner or his representative shall give his receipt for such goods by entering his signature on the sale memorandum. Should any of the goods to be sold be subject to any other attachment besides, that on which the Court has ordered their sale, the bailiff shall invite the persons charged with such other attachment to be present at the auction; any goods not sold shall be delivered to such persons who shall give receipt for the same.

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* This is one of the provisions which indicates the difficulties of a central State-organized bank, and the doubts felt by the framers of the law as to its success without drastic legal provisions. The nature of the *minimum* punishment is noteworthy.

† In continental Europe the word 'commercial' has a rather technical meaning; all Acts of commerce are governed by the Commercial rather than by the Civil Code, and are subject to the jurisdiction either of the regular Commercial Courts or of the Commercial side of the ordinary Civil Courts. *See* elsewhere in this Appendix.

‡ The Roumanian Code is similar to that of Italy, in which Book III treats of the dissolution and liquidation of companies.

§ *I.e.*, under 6 (1); *See* section 14.

‖ The meaning is not quite clear; apparently when the goods have once been thus attached no subsequent attachment is valid as against such prior attachment, but must take a lower rank. But section 12 expressly reserves the *prior* right of a landlord. Perhaps the landlord only has a prior right until the date of the memorandum of attachment; in other words the bank's claim is preceded by the landlord's claim until actual attachment when the bank's claim takes precedence. This is contrary to the rights of a landlord under the Bills of Sale Act (England) by which the right of a landlord is saved even though the goods are actually under attachment.

In case the owner or his representative or the persons charged with any other attachment, refuse or are unable to receive the surplus goods, the said surplus goods shall be delivered to the mayor where the commune is rural, and to the police where it is urban, together with a memorandum showing their nature and quantity, which shall also be entered in the sale memorandum.

21. The sale shall be by public auction and the goods shall be knocked down to the highest bidder.

No one shall be permitted to bid unless he shall have deposited with the bailiff a sum equal to 10 per cent. of the amount due.

22. The bailiff shall sign on the spot the auction notes, enter thereon the amount obtained by the sale, retain the amount due to the bank and as costs, and give the debtor an acknowledgment showing the sum collected. If there are no other attachments or executions on the property, any surplus receipts shall be paid over to the owner in cash on the spot.

23. The debtor or his representatives shall sign the auction note reciting the conclusion of the affair and its results.

Should the debtor refuse to be present at the sale or to accept a receipt and any surplus as mentioned in section 22, the bailiff in the presence of two witnesses taken from the bystanders shall note such refusal at the end of the auction note, and shall deposit the receipt in the communal office; the surplus cash shall be remitted through the district treasury to the office for deposits to await any claim. The deposit receipt shall be kept by the court which ordered the auction.

24. Where the court has ordered the sale including therein any dues on any privileged claims other than those of the bank, as per section 12 and when the sum obtained by such sale shall not cover the whole of the dues for which the sale was ordered, the court shall proceed to distribute such sum and shall determine the order of priority of the claims in the manner provided by section 26 *infra*.

25. The auction note shall be made out in triplicate, one copy of which shall be deposited in the communal records, the second in the court, and the third shall be sent by the President of the court to the bank together with the amount obtained by the sale towards the cancelment of the debt.

26. Objections raised to proceedings taken against goods under the present law shall be made to the district court within eight days from the date of publication of the notice issued under section 19 *supra*. Objections by the debtor or pledgor shall not be admitted unless accompanied by a receipt intimating the deposit of the amount for which proceedings had been issued.

In both cases the court shall treat the matter as urgent.

Proceedings before the court under this section shall be exempt from stamp duties as regards the State.*

The orders of the court shall be subject to appeal within 15 days from date of the order, on the ground that it has exceeded its powers, that it has no jurisdiction, or that it has acted illegally.

27. A public set of rules compiled by the Minister of Finance in concert with the Minister of Justice shall prescribe all details necessary to execute the present law.

28. As soon as the law has been published Government shall open a public subscription for the capital of £200,000 mentioned in section 2.

The bank shall not be established or commence business until full subscription of 10,000 shares.

29. As soon as the subscription has closed, the Minister of Finance shall call together the shareholders with the object of establishing the bank and of fulfilling the requirements of the Code of Commerce as per section 3 *supra*.

BILLS OF SALE ACT, ENGLAND 1878.†

(41 & 42 Vict., Chap. 31.)

An Act to consolidate and amend the Law for preventing frauds upon creditors by secret Bills of Sale of Personal Chattels.

[22nd July 1878.]

1. *Short title.*—This Act may be cited for all purposes as the Bills of Sale Act, 1878.

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* Verso lo stato; the meaning is not quite clear; apparently it means that stamp duties as on plaints are not leviable, but that other costs are.

† *See* Vol. I, pp. 317–18.

These Acts are here entered because of the similarity of some of the provisions to those of the special laws for agricultural credit in Italy and Belgium. Moreover the bill of sale is much used in small credit in Great Britain and Ireland; in the latter island it is greatly used, and—it is said—abused, in the supply of credit, frequently usurious, to small farmers. These particular Acts do not however apply to Scotland and Ireland.

The Act of 1878 seems to have been drawn chiefly in the interest of creditors; to prevent fraud on the part of borrowers, and to enable lenders to ascertain the real nature of the security offered. That of 1882 protects debtors also, especially sections 4, 7, 8 and 9.

The bills of sale known as "conditional," viz., mortgages of movables granted to secure the payment of money, where the property remains in possession of the grantor of the bill (*i.e.*, the borrower), are those of most interest for the purposes of this study; "absolute" bills, that is, out and out sales, are of no present interest.

A bill of sale is a document by which the property in personal chattels is transferred without transfer of possession; usually the operation is intended to provide security for the repayment of money lent by the grantee of the bill of sale to the grantor; should the grantor fail to meet his obligations to the grantee, the latter has the right of instant seizure of the chattels in question, as entered in the schedule to the bill of sale (*see* section 3 of the principal Act (1878), and section 7 of the Amendment Act, 1882, with the note thereon). But a bill of sale does not protect the goods against the right of a landlord to distrain them for his rent, or of the authorities for rates and taxes: these are prior or preferential rights (privileges) which cannot be defeated by contract claims.

The definition of the expression "personal chattels" in section 4 is important.

The works principally consulted are those of Messrs. D. R. Macalpin, T. W. Haycraft and Herbert Reed.

3. *Application of Act.*—This Act shall apply to every bill of sale executed on or after the first day of January one thousand eight hundred and seventy-nine (whether the same be absolute, or subject or not subject to any trust) whereby the holder or grantee has power, either with or without notice, and either immediately or at any future time, to seize or take possession of any personal chattels comprised in or made subject to such bill of sale.

4. *Interpretation of terms.*—In this Act the following words and expressions shall have the meanings in this section assigned to them respectively, unless there be something in the subject or context repugnant to such construction; (that is to say),

The expression "bill of sale" shall include bills of sale, assignments, transfers, declarations of trust without transfer, inventories of goods with receipt thereto attached, or receipts for purchase moneys of goods, and other assurances of personal chattels, and also powers of attorney, authorities, or licenses to take possession of personal chattels as security for any debt, and also any agreement, whether intended or not, to be followed by the execution of any other instrument, by which a right in equity to any personal chattels, or to any charge or security thereon, shall be conferred, but shall not include the following documents; that is to say, assignments for the benefit of the creditors of the person making or giving the same, marriage settlements, transfers or assignments of any ship or vessel or any share thereof, transfers of goods in the ordinary course of business of any trade or calling, bills of sale of goods in foreign parts, or at sea, bills of lading, India warrants, warehouse-keeper's certificates, warrants or orders for the delivery of goods, or any other documents used in the ordinary course of business, as proof of the possession or control of goods, or authorising or purporting to authorise, either by endorsement or by delivery, the possessor of such document to transfer or receive goods thereby represented:

The expression "personal chattels" shall mean goods, furniture, and other articles capable of complete transfer by delivery, and (when separately assigned or charged) fixtures and growing crops, but shall not include chattel interests in real estate, nor fixtures (except trade machinery as hereinafter defined), when assigned together with a freehold or leasehold interest in any land or building to which they are affixed, nor growing crops when assigned together with any interest in the land on which they grow, nor shares or interests in the stock, funds, or securities of any government, or in the capital or property of incorporated or joint stock companies, nor chooses in action, nor any stock or produce upon any farm or lands, which by virtue of any covenant or agreement, or of the custom of the country ought not to be removed from any farm where the same are at the time of making or giving of such bill of sale:

Personal chattels shall be deemed to be in the "apparent possession" of the person making or giving a bill of sale, so long as they remain or are in or upon any house, mill, warehouse, building, works, yard, land, or other premises occupied by him, or are used and enjoyed by him in any place whatsoever, notwithstanding that formal possession thereof may have been taken by, or given, to any other person:

"Prescribed" means prescribed by rules made under the provisions of this Act.

5. *Application of Act to trade machinery.*—From and after the commencement of this Act trade machinery shall, for the purposes of this Act, be deemed to be personal chattels, and any mode of disposition of trade machinery by the owner thereof which would be a bill of sale as to any other personal chattels, shall be deemed to be a bill of sale within the meaning of this Act.

For the purposes of this Act—

"Trade machinery" means the machinery used in, or attached to, any factory or workshop;

1*st.*—Exclusive of the fixed motive-powers, such as the water-wheels, and steam engines, and the steam boilers, donkey engines, and other fixed appurtenances of the said motive-powers; and,

2*nd.*—Exclusive of the fixed power machinery, such as the shafts, wheels, drums, and their fixed appurtenances which transmit the action of the motive-powers to the other machinery, fixed and loose; and,

3*rd.*—Exclusive of the pipes for steam, gas, and water in the factory or workshop.

The machinery or effects excluded by this section from the definition of trade machinery shall not be deemed to be personal chattels within the meaning of this Act.

"Factory or workshop" means any premises on which any manual labour is exercised by way of trade, or for purposes of gain, in or incidental to the following purposes or any of them; that is to say,

(*a*) In or incidental to the making any article or part of an article; or
(*b*) In or incidental to the altering, repairing, ornamenting, finishing, of any article; or
(*c*) In or incidental to the adapting for sale any article.

6. *Certain instruments giving powers of distress to be subject to this Act.*—Every attornment, instrument, or agreement, not being a mining lease, whereby a power of distress is given or agreed to be given, by any person to any other person by way of security for any present, future, or contingent debt or advance, and whereby any rent is reserved or made payable as a mode of providing for the payment of interest on such debt or advance, or otherwise for the purpose of such security only, shall be deemed to be a bill of sale, within the meaning of this Act, of any personal chattels which may be seized or taken under such power of distress.

Provided, that nothing in this section shall extend to any mortgage of any estate or interest in any land, tenement, or hereditament, which the mortgagee, being in possession, shall have demised to the mortgagor as his tenant at a fair and reasonable rent.

7. *Fixtures or growing crops not to be deemed separately assigned when the land passes by the same instrument.*—No fixtures or growing crops shall be deemed, under this Act, to be separately assigned or charged by reason only that they are assigned by separate words, or that power is given to sever them

from the land or building to which they are affixed, or from the land on which they grow, without otherwise taking possession of or dealing with such land or building, or land, if by the same instrument any freehold or leasehold interest in the land or building to which such fixtures are affixed, or in the land on which such crops grow, is also conveyed or assigned to the same persons or person.

The same rule of construction shall be applied to all deeds or instruments, including fixtures or growing crops, executed before the commencement of this Act and then subsisting and in force, in all questions arising under any bankruptcy, liquidation, assignment for the benefit of creditors, or execution of any process of any court, which shall take place or be issued after the commencement of this Act.

8. (Repealed by section 15 of the Act of 1882.)

9. *Avoidance of certain duplicate bills of sale.*—Where a subsequent bill of sale is executed within, or on the expiration of, seven days after the execution of a prior unregistered bill of sale, and comprises all or any part of the personal chattels comprised in such prior bill of sale, then, if such subsequent bill of sale is given as a security for the same debt as is secured by the prior bill of sale, or for any part of such debt, it shall, to the extent to which it is a security for the same debt or part thereof, and so far as respects the personal chattels or part thereof comprised in the prior bill, be absolutely void, unless it is proved to the satisfaction of the court having cognisance of the case that the subsequent bill of sale was *bonâ fide* given for the purpose of correcting some material error in the prior bill of sale, and not for the purpose of evading this Act.

10. *Mode of registering bills of sale.*—A bill of sale shall be attested and registered under this Act in the following manner:—

(1) The execution of every bill of sale shall be attested by a Solicitor of the Supreme Court, and the attestation shall state that before the execution of the bill of sale the affect thereof has been explained to the grantor by the attesting Solicitor.*

(2) Such bill, with every schedule or inventory thereto annexed or therein referred to, and also a true copy of such bill and of every such schedule or inventory, and of every attestation of the execution of such bill of sale, together with an affidavit of the time of such bill of sale being made or given, and of its due execution and attestation, and a description of the residence and occupation of the person making or giving the same (or in case the same is made or given by any person under or in the execution of any process, then a description of the residence and occupation of the person against whom such process issued), and of every attesting witness to such bill of sale, shall be presented to and the said copy and affidavit shall be filed with the registrar within seven clear days after the making or giving of such bill of sale, in like manner as a warrant of attorney in any personal action given by a trader is now by law required to be filed.

(3) If the bill of sale is made or given subject to any defeasance or condition, or declaration of trust not contained in the body thereof, such defeasance, condition, or declaration shall be deemed to be part of the bill, and shall be written on the same paper or parchment therewith before the registration, and shall be truly set forth in the copy filed under this Act therewith, and as part thereof, otherwise the registration shall be void.

In case two or more bills of sale are given, comprising in whole or in part any of the same chattel, they shall have priority in the order of the date of their registration, respectively as regards such chattels.

A transfer or assignment of a registered bill of sale need not be registered.

11. *Renewal of registration.*—The registration of a bill of sale, whether executed before or after the commencement of this Act, must be renewed once at least every five years, and if a period of five years elapses from the registration or renewed registration of a bill of sale without a renewal or further renewal (as the case may be), the registration shall become void.

The renewal of a registration shall be effected by filing with the registrar an affidavit stating the date of the bill of sale and of the last registration thereof, and the names, residences, and occupations of the parties thereto as stated therein, and that the bill of sale is still a subsisting security.

Every such affidavit may be in the form set forth in the Schedule (A) to this Act annexed.

A renewal of registration shall not become necessary by reason only of a transfer or assignment of a bill of sale.

12. *Form of register.*—The registrar shall keep a book (in this Act called "the register") for the purposes of this Act, and shall, upon the filing of any bill of sale or copy under this Act, enter therein in the form set forth in the second Schedule (B) to this Act, annexed, or in any other prescribed form, the name, residence, and occupation of the person by whom the bill was made or given (or in case the same was made or given by any person under or in the execution of process, then the name, residence and occupation of the person against whom such process was issued, and also the name of the person or persons to whom or in whose favour the bill was given), and the other particulars shown in the said schedule or to be prescribed under this Act, and shall number all such bills registered in each year consecutively, according to the respective dates of their registration.

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* Sub-section 1 has been repealed by section 10 of the Amendment Act (1882), but Mr. Herbert Reed, in his commentary, considers the repeal to be limited, by section 3 of the Amendment Act, to bills of sale under the same (Amendment) Act. This, however, includes all bills of sale given to secure the payment of money, that is, all such as are of interest in this study. Such bills are to be attested as provided for in section 10 of the Amendment Act.

It will be noticed that in sub-section 2 and the following sections, the immediate registration of bills of sale is compulsory. This is a much needed provision not found in the Indian Registration Act, by which the registration of such documents is optional [section 18 (d)]. Under the English Act registration is not "transcription," but "inscription," viz., the entry of a mere memorandum in a register, but the person making the registration must, with the bill of sale, present also a copy thereof which is filed in the Registrar's office. The plan might be suitable for a good deal of the registration effected in India, especially of the less important documents.

Upon the registration of any affidavit of renewal the like entry shall be made, with the addition of the date and number of the last previous entry relating to the same bill, and the bill of sale or copy originally filed shall be thereupon marked with the number affixed to such affidavit of renewal.

The registrar shall also keep an index of the names of the grantors of registered bills of sale with reference to entries in the register of the bills of sale given by each such grantor.

Such index shall be arranged in divisions corresponding with the letters of the alphabet, so that all grantors whose surnames begin with the same letter (and no others) shall be comprised in one division, but the arrangement within each such division need not be strictly alphabetical.

13. *The registrar.*—The masters of the Supreme Court of Judicature attached to the Queen's Bench Division of the High Court of Justice, or such other officers as may for the time being be assigned for this purpose under the provisions of the Supreme Court of Judicature Acts, 1873 and 1875, shall be the registrar for the purposes of this Act, and any one of the said masters may perform all or any of the duties of the registrar.

14. *Rectification of register.*—Any Judge of the High Court of Justice on being satisfied that the omission to register a bill of sale, or an affidavit of renewal thereof within the time prescribed by this Act, or the omission or mis-statement of the name, residence, or occupation of any person, was accidental or due to inadvertence, may in his discretion order such omission or mis-statement to be rectified by the insertion in the register of the true name, residence, or occupation, or by extending the time for such registration on such terms and conditions (if any) as to security, notice by advertisement or otherwise, or as to any other matter, as he thinks fit to direct.

15. *Entry of satisfaction.*—Subject to and in accordance with any rules to be made under, and for the purposes of this Act, the registrar may order a memorandum of satisfaction to be written upon any registered copy of a bill of sale, upon the prescribed evidence being given that the debt (if any) for which such bill of sale was made or given has been satisfied or discharged.

16. *Copies may be taken, &c.*—Any person shall be entitled to have an office copy or extract of any registered bill of sale, and affidavit of execution filed therewith, or copy thereof, and of any affidavit filed therewith, if any, or registered affidavit of renewal, upon paying for the same at the like rate as for office copies of judgments of the High Court of Justice, and any copy of a registered bill of sale, and affidavit purporting to be an office copy thereof, shall in all courts and before all arbitrators or other persons, be admitted as *primâ facie* evidence thereof, and of the fact and date of registration as shown thereon.

17. *Affidavits.*—Every affidavit required by, or for the purposes of this Act, may be sworn before a master of any division of the High Court of Justice, or before any Commissioner empowered to take affidavits in the Supreme Court of Judicature.

Whoever wilfully makes or uses any false affidavit for the purposes of this Act shall be deemed guilty of wilful and corrupt perjury.

18. *Fees.**—There shall be paid and received in common law stamps the following fees, viz.:—

On filing a bill of sale	2*s.*
On filing the affidavit of execution of a bill of sale	2*s.*
On the affidavit used for the purpose of registering a bill of sale (to include the fee for filing)	5*s.*

19. *Collection of fees under* 38 *and* 39 *Vict., c.* 77, *s.* 26.—Section 26 of the Supreme Court of Judicature Act, 1875, and any enactments for the time being in force amending or substituted for that section, shall apply to fees under this Act, and an order under that section may, if need be, be made in relation to such fees accordingly.

20. (Repealed by s. 15 of the Act of 1882.)

21. *Rules.*—Rules for the purposes of this Act may be made and altered from time to time by the like persons and in the like manner in which rules and regulations may be made under and for the purposes of the Supreme Court of Judicature Acts, 1873 and 1875.

22. *Time for registration.*—When the time for registering a bill of sale expires on a Sunday, or other day on which the registrar's office is closed, the registration shall be valid if made on the next following day on which the office is open.

23. *Repeal of Acts.*—

24. *Extent of Act.*—This Act shall not extend to Scotland or to Ireland.

BILLS OF SALE ACT (1878), AMENDMENT ACT, 1882.

(45 & 46 Vict., Chap. 43.)

An Act to amend the Bills of Sale Act, 1878. [18th August 1882.]

1. *Short title.*—This Act may be cited for all purposes as the Bills of Sale Act (1878) Amendment Act, 1882; and this Act and the Bills of Sale Act, 1878, may be cited together as the Bills of Sale Acts, 1878 and 1882.

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* These fees are irrespective of the stamp duty on the bill of sale itself. This, on conditional bills, *i.e.*, bills granted to secure the payment of money, is 1*s.* 3*d.* on a bill of from £25 to £50, 2*s.* 6*d.* on bills from £50 to £100, and so on up to £300. Transfers of bills are chargeable with a stamp duty of 6*d.* for every £100 or part of £100.

The fee payable on the registration of bills of sale, which is compulsory, is 5*s.* for £100 or part thereof up to £200, and £1 for bills above that sum. There are also heavy fees for filing other documents, affidavits, &c. These are leviable as Supreme Court Fees (*see* section 19 of the present Act), by means of "Judicature stamps."

3. *Construction of Act.*—The Bills of Sale Act, 1878, is hereinafter referred to as "the principal Act," and this Act shall, so far as is consistent with the tenor thereof, be construed as one with the principal Act; but unless the context otherwise requires, shall not apply to any bill of sale duly registered before the commencement of this Act, so long as the registration thereof is not avoided by non-renewal or otherwise.

The expression "bill of sale," and other expressions in this Act, have the same meaning as in the principal Act, except as to bills of sale or other documents mentioned in section 4 of the principal Act, which may be given otherwise than by way of security for the payment of money, to which last-mentioned bills of sale and other documents this Act shall not apply.

4. *Bill of sale to have schedule of property attached thereto.*—Every bill of sale shall have annexed thereto or written thereon, a schedule containing an inventory of the personal chattels comprised in the bill of sale; and such bill of sale, save as hereinafter mentioned, shall have effect only in respect of the personal chattels specifically described in the said schedule; and shall be void, except as against the grantor, in respect of any personal chattels not so specifically described.*

5. *Bill of sale not to affect after-acquired property.*—Save as hereinafter mentioned, a bill of sale shall be void, except as against the grantor, in respect of any personal chattels specifically described in the schedule thereto of which the grantor was not the true owner at the time of the execution of the bill of sale.

6. *Exception as to certain things.*—Nothing contained in the foregoing sections of this Act shall render a bill of sale void in respect of any of the following things; (that is to say),

(1) Any growing crops separately assigned or charged where such crops were actually growing at the time when the bill of sale was executed.

(2) Any fixtures separately assigned or charged, and any plant, or trade machinery where such fixtures, plant, or trade machinery are used in, attached to, or brought upon any land, farm, factory, workshop, shop, house, warehouse, or other place in substitution for any of the like fixtures, plant, or trade machinery specifically described in the schedule to such bill of sale.

7. *Bill of sale with power to seize except in certain events to be void.*—Personal chattels assigned under a bill of sale shall not be liable to be seized or taken possession of by the grantee for any other than the following causes:—†

(1) If the grantor shall make default in payment of the sum or sums of money thereby secured at the time therein provided for payment, or in the performance of any covenant or agreement contained in the bill of sale and necessary for maintaining the security;

(2) If the grantor shall become a bankrupt, or suffer the said goods or any of them to be distrained for rent, rates, or taxes;

(3) If the grantor shall fraudulently either remove or suffer the said goods, or any of them, to be removed from the premises;

(4) If the grantor shall not, without reasonable excuse upon demand in writing by the grantee, produce to him his last receipts for rent, rates, and taxes;

(5) If execution shall have been levied against the goods of the grantor under any judgment at law.

Provided that the grantor may within five days from the seizure or taking possession of any chattels on account of any of the above-mentioned causes, apply to the High Court, or to a Judge thereof in chambers, and such court or Judge, if satisfied that by payment of money or otherwise the said cause of seizure no longer exists, may restrain the grantee from removing or selling the said chattels, or may make such other order as may seem just.

8. *Bill of sale to be void unless attested and registered.*—Every bill of sale shall be duly attested, and shall be registered under the principal Act within seven clear days after the execution thereof, or if it is executed in any place out of England then within seven clear days after the time at which it would in the ordinary course of post arrive in England, if posted immediately after the execution thereof; and shall truly set forth the consideration for which it was given; otherwise such bill of sale shall be void in respect of the personal chattels comprised therein.

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* This section is very important. The goods under mortgage must be specifically described in a schedule "with such particularity as is usual in an ordinary business inventory of such chattels in such a place as they are," but it is not necessary to go "into minutiæ." Farm stock is somewhat variable, and probably, under the decisions, it is only necessary to mention the nature and number of the articles or animals.

Presumably, under section 5, the lender on the bill of sale would have no claim on after-acquired property, such as an increase, by reproduction, &c., of a given number of cows, sheep, &c., or on crops sown subsequently to the date of the bill.

† It will be remembered that under a bill of sale the grantee (lender) has the right of seizure of the scheduled property (section 3 of the Act of 1878). Section 7 of the Amendment Act limits the power of seizure to the occurrence of one or other of five causes, with power of appeal by the grantor to the courts.

The bill of sale, as such, with its inherent power of summary seizure, is not in force in India; movables, crops, &c., are mortgaged without delivery of possession, but the mortgagee has no power summarily and without court process, to enter and seize the goods on breach of covenant by the mortgagor. Perhaps, under the conditions of credit in India it might, at first, be advisable to restrict the power of summary seizure by the mortgagee without court process; *e.g.*, by allowing the power only in the case of bills of sale granted to recognized or specially empowered credit associations and to companies, to individuals only in specified areas such as towns and for sums of Rs. 50 and upwards.

The grantor may be required duly to maintain the security; *e.g.*, the bill of sale may require him to insure the goods, to prevent them from destruction or injury otherwise than by reasonable wear and tear, and to replace or repair damaged stock, &c.; failure to maintain the agreement will warrant seizure. So also, by sub-section (4), seizure is warranted if the grantee fails to produce his receipts for rent, rates and taxes, since the goods would be liable to be distrained by the landlord or by the authorities on their respective rights of priority, if the grantee failed in his payments for rent, taxes, &c. (*see* note on section 9 *infra*).

9. *Form of bill of sale.*—A bill of sale made or given by way of security for the payment of money by the grantor thereof shall be void unless made in accordance with the form in the schedule to this Act annexed. *

10. *Attestation.*—The execution of every bill of sale by the grantor shall be attested by one or more credible witness or witnesses, not being a party or parties thereto. So much of section 10 of the principal Act as requires that the execution of every bill of sale shall be attested by a Solicitor of the Supreme Court, and that the attestation shall state that before the execution of the bill of sale the effect thereof has been explained to the grantor by the attesting witness, is hereby repealed. †

11. *Local registration of contents of bills of sale.*—Where the affidavit (which under section 10 of the principal Act is required to accompany a bill of sale when presented for registration) describes the residence of the person making or giving the same or of the person against whom the process is issued to be in some place outside the London bankruptcy district as defined by the Bankruptcy Act, 1869, or where the bill of sale describes the chattels enumerated therein as being in some place outside the said London bankruptcy district, the registrar under the principal Act shall forthwith and within three clear days after registration in the principal registry, and in accordance with the prescribed directions, transmit an abstract in the prescribed form of the contents of such bill of sale to the county court registrar in whose district such place are situate, and if such places are in the districts of different registrars to each such registrar, page 56.

Every abstract so transmitted shall be filed, kept, and indexed by the registrar of the county court in the prescribed manner, and any person may search, inspect, make extracts from, and obtain copies of the abstract so registered in the like manner and upon the like terms as to payment or otherwise as near as may be as in the case of bills of sale registered by the registrar under the principal Act.

12. *Bill of sale under £30 to be void.*—Every bill of sale made or given in consideration of any sum under thirty pounds shall be void. ‡

13. *Chattels not to be removed or sold.*—All personal chattels seized or of which possession is taken after the commencement of this Act, under or by virtue of any bill of sale (whether registered before or after the commencement of this Act), shall remain on the premises where they were so seized or so taken possession of, and shall not be removed or sold until after the expiration of five clear days from the day they were so seized or so taken possession of. §

14. *Bill of sale not to protect chattels against poor and parochial rates.*—A bill of sale to which this Act applies shall be no protection in respect of personal chattels included in such bill of sale which but for such bill of sale would have been liable to distress, under a warrant for the recovery of taxes and poor and other parochial rates.

15. *Repeal of part of Bills of Sale Act,* 1878.—The eighth and the twentieth sections of the principal Act, and also all other enactments contained in the principal Act, which are inconsistent with this Act are repealed, but this repeal shall not affect the validity of anything done or suffered under the principal Act before the commencement of this Act.

16. *Inspection of registered bills of sale.*—So much of the sixteenth section of the principal Act, as enacts that any person shall be entitled at all reasonable times to search the register, and every registered bill of sale upon payment of one shilling for every copy of a bill of sale inspected is hereby repealed, and from and after the commencement of this Act, any person shall be entitled at all reasonable times to search the register, on payment of a fee of one shilling, or such other fee as may be prescribed, and subject to such regulations as may be prescribed, and shall be entitled at all reasonable times to inspect, examine, and make extracts from any and every registered bill of sale, without being required to make a written application, or to specify any particulars in reference thereto, upon payment of one shilling for each bill of sale inspected, and such payment shall be made by a judicature stamp. Provided that the said extracts shall be limited to the dates of execution, registration, renewal of registration, and satisfaction, to the names, addresses, and occupations of the parties, to the amount of the consideration, and to any further prescribed particulars.

17. *Debentures to which Act not to apply.*—Nothing in this Act shall apply to any debentures issued by any mortgage, loan, or other incorporated company, and secured upon the capital stock or goods, chattels, and effects of such company.

18. *Extent of Act.*—This Act shall not extend to Scotland or Ireland.

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* The decisions show that only substantial conformity with the schedule form is necessary : it may be in any form provided that the legal consequences or effects will be neither greater nor less than if drawn in the exact statutory form : "nothing substantial must be subtracted from it, and nothing actually inconsistent must be added to it." Accordingly bills of sale are usually much fuller in form than that given in the schedule and contain in detail the several covenants by which the grantor (borrower) is to be specifically bound. *E.g.*, in a specimen extended form of a conditional bill of sale granted on account of money lent to the grantor, besides the general covenant for repayment, there are special covenants (1) for insurance of the goods ; (2) for due payment of rent, rates, and taxes on the premises containing the goods ; (3) for the production on demand of the latest receipts for rent, rates and taxes, and of the insurance policy and latest receipt ; (4) for the repayment with interest to the grantee of any sums paid by him on account of (1) and (2) ; (5) for the non-removal of the goods without the grantee's consent (this does not bar temporary removal for use in the ordinary course of business, as by driving a horse beyond the farm limits, &c.) ; (6) for the prevention of undue deterioration, &c., and for the replacement and repair of the goods and their maintenance in their present value ; (7) for allowing the grantee or his agents to enter and remove the goods in case of breach of covenant, and to sell the same.

† This section is apparently intended to lessen the cost and extend the use of bills of sale by the repeal of the formality required by the principal Act.

‡ The reason for this limitation is not known : Mr. Reed states that the limit originally proposed was £50, and that £30 is the result of a compromise. In this Presidency it does not seem necessary to make a limit.

§ Distrained property in England is generally left on the premises ; *see* Vol. I, pp. 315–16, and section 61 of the Draft Bill in the same volume.

FORM OF BILL OF SALE.

This Indenture made the day of between *A.B.* of of the one part, and *C.D.* of of the other part, witnesseth that in consideration of the sum of £ now paid to *A.B.* by *C.D.*, the receipt of which the said *A.B.* hereby acknowledges [*or whatever else the consideration may be*], he the said *A.B.* doth hereby assign unto *C.D.*, his executors, administrators, and assigns, all and singular the several chattels and things specifically described in the schedule hereto annexed by way of security for the payment of the sum of £ , and interest thereon at the rate of per cent. per annum [*or whatever else may be the rate*]. And the said *A.B.* doth further agree and declare that he will duly pay to the said *C.D.* the principal sum aforesaid, together with the interest then due, by equal payments of £ on the day of [*or whatever else may be the stipulated times or time of payment*]. And the said *A.B.* doth also agree with the said *C.D.* that he will [*here insert terms as to insurance, payment of rent, or otherwise, which the parties may agree to for the maintenance or defeasance of the security*].

Provided always, that the chattels hereby assigned shall not be liable to seizure or to be taken possession of by the said *C.D.* for any cause other than those specified in section 7 of the Bills of Sale Act (1878), Amendment Act, 1882.

In witness, &c.

Signed and sealed by the said *A.B.* in the presence of me *E.F.* [*add witness' name, address, and description*].

AGRICULTURAL BANKS, MYSORE.*

EXTRACT FROM THE DEWAN'S DASARA SPEECH OF 1894.

GENTLEMEN,—Before concluding this address, I wish to make a few observations regarding the establishment of agricultural banks in this country, which on more than one previous occasion you pressed upon the attention of the Government. The subject has now received that careful study and investigation which its vital importance demands and I am able to place in your hands to-day the Kanarese draft of a scheme whereunder banks for the special benefit of agriculturists can most readily be established in this country. The details of the scheme are set forth in full in the draft before you, but I may in this place add a few remarks in explanation of its more salient features.

On the one hand we have large accumulations of unused capital in the country as evidenced by the balances in the Presidency and other exchange banks, the refusal of the former to receive any private deposits except as current ones carrying no interest and the high premium which the Government of India 3½ per cent. securities command. On the other hand, we have the agriculturist suffering from inability to raise the funds required for his *bonâ fide* purposes except at ruinous rates of interest. In our own State the balance of the Government Savings Banks' deposits has risen from 4 lakhs in 1881 to 28 lakhs during the last year, though the rate of interest was recently reduced to 3½ per cent., but the borrowing power of our raiyat is nevertheless as low as ever. The substantial agriculturist, especially the coffee planter and the grower of exportable produce, is able to obtain some credit from the foreign buyer on the security of his crops at 9 and 12 per cent. interest, but the ordinary raiyat is unable to get any credit except at usurious rates. How to bridge over the wide gulf that thus separates capital from want is one of the most important problems of the day in this country, and it is not without considerable diffidence that His Highness' Government approach its solution; but we derive the hope of eventual success from what has already been accomplished in some European countries, where conditions very similar to ours have existed. These countries have tried various experiments for the re-organization of land credit by interposing an intermediate body, such as the Land Credit banks of the Continent, between the capitalist and the agricultural borrower. These experiments have been attended with varying degrees of success according to the degree of identification attained, of the interests of the intermediate body with those of the borrower, but the most successful system has been proved to be that in which the agriculturists, forming themselves into an association on strictly co-operative principles, substituted their own united credit for that of the intermediate body, thus securing for themselves the fullest return for their own credit as agriculturists and doing away with the profits of the middlemen.

The existing conditions among us offer no insuperable obstacle in the way of the establishment and successful working of similar associations in this country under the designation of agricultural banks. Indeed, speaking of our own Province, the tracts in which the *Suttigé* and crop advance systems exist, afford highly favourable conditions for their establishment. The essential principles underlying their constitution are—

(i) Every bank to be an association of landholders, formed on strictly co-operative principles, and enlisted on the basis of mutual confidence arising from the mutual information of each others character and resources. The object to be the common benefit of cheap credit and not the earning of divisable profits;

(ii) There should be no share capital, the funds required for the bank being obtained by means of loans raised or deposits received;

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* These banks have not been mentioned in Vol. I, since that volume was mostly in type when the scheme was first introduced at the end of 1894, while the standard rules exemplifying and modelling the system, were only issued after Vol. I had been completed and sent to Government. The omission is now remedied.

It will be seen that the funds are entirely provided by Government, which also concedes certain privileges.

It is believed that several banks are already (1896) at work under this scheme.

The text gives the speech of the Dewan (Sir Sheshadri Iyer, K.C.S.I.), introductory of the scheme (1894), a copy of the revised model rules (1895), and two applications from inchoate banks with the Government orders thereon.

(iii) The members to contribute their liability only. They will be at full liberty to limit this liability by prescribing a maximum for each individual loan or for the sum total of all loans, or to resign at any time and thus escape from further liability;

(iv) The funds raised by the bank to be lent only to its members, at such moderate rates of interest as will leave the bank a small margin for the actual expenses of management and for the gradual formation of a reserve fund;

(v) The affairs of the bank to be managed by a body elected from among the members themselves and giving their services gratuitously; and

(vi) No loan to be made except for an approved purpose, such as some agricultural operation which, with ordinary care, may be expected to yield enough to repay the loan and to leave some profit for the borrower.

The subordinate principles and the details of the practical working, you will find fully described in the Kanarese draft before you (of which an English abstract is appended to this address). And it only remains for me to add that a bank thus constituted and doing business on such conditions must be solvent and will be able eventually to command ample credit in the open market; but while such credit is in the process of growth—and its growth will take time—the Government will be prepared to help the bank with deposits of money at favourable rates of interest. The Government will in addition be able to grant exemption from stamp and other duties, to provide for the special registration of loans and their ready recovery, for the custody of funds in public treasuries, for the periodical audit of accounts, &c., but the co-operative spirit to which the association is to owe its existence must emanate from the agriculturists themselves. I have no doubt such a spirit is to be found in most parts of the Province, at least to the extent of enabling us to make a small beginning. Small beginnings and early struggles are the necessary conditions of vigorous life, and I indulge in the hope that the scheme, carefully worked on a moderate scale and in places where the conditions are most favourable, will soon be the means of establishing a system of agricultural banks throughout the country. They will be a great education to the people in thrift and co-operation, and they will be the means of creating a wholesome public opinion against unproductive expenditure and extravagance of all kinds.

MYSORE,
12th October 1894.

K. SHESHADRI IYER,
Dewan of Mysore.

AN ABSTRACT OF THE DRAFT SCHEME FOR THE ESTABLISHMENT OF AGRICULTURAL BANKS IN MYSORE.

I. Every bank to be an association of landholders formed on strictly co-operative principles, not for the purpose of earning any profit divisible among its members, but for the purpose of obtaining money by their own united credit and lending it among themselves according to the actual requirements of each member to the extent the others have confidence in him.

II. There is to be no share capital; there may be a small irrecoverable entrance fee for membership.

III. The members to be elected with reference to their honesty, general character and habits.

IV. The members to contribute their liability only. They may practically limit this liability by prescribing that not more than a fixed sum is to be lent to any one man or that not more than another fixed sum is to be lent out in all.

V. Every member to be at liberty to resign at any time and thus escape from all further liability.

VI. The funds of the bank to be raised by receiving deposits from the members or others or by loans from others.

VII. The security for repayment of the bank's loan to one of its members is the borrower's own character and resources, and those of two sureties who should also be members.

VIII. No loan to any one who is not a member is to be made on any account.

IX. No loan to be made except for an approved purpose, which generally should be some operation which, by its profit, will repay the loan. It may in exceptional cases include an approved *bonâ fide* domestic requirement. It should include the redemption of land from an existing mortgage, the liquidation of existing debts of any kind whatsoever, the purchase of agricultural stock, the extension of the holding, &c., always subject to the next condition regarding time for repayment.

X. The loan should generally be for less than one year when for the ordinary annual requirements of cultivation. It may be for longer periods, in which case the repayment should be by equal annual instalments well within the borrower's annual margin of profits.

XI. Every borrower should be bound to spend what he borrows for the express purpose for which he borrows. Default in this to lead to the recall of the loan by a three-months' notice.

XII. Absolute punctuality of repayment to be strictly enforced.

XIII. The members to give their services gratuitously.

XIV. The funds raised by the bank to be lent to its members at such moderate rates of interest as will leave the bank a small margin for the actual expenses of management and the gradual formation of a reserve fund.

XV. The reserve fund to be used for the common purposes of the members, but not to be divided among them. If the bank is wound up, the reserve to be used for some purpose of local utility.

XVI. The members of the bank to be drawn from a limited area. The bank to be essentially rural in its constitution.

XVII. The general meeting to be the absolute final authority in all matters. An Executive Committee of five or less to meet monthly or oftener and to grant loans, receive deposits, &c., and generally to conduct the business of the bank. A larger committee to supervise the operations and especially to watch that borrowers fulfil the objects for which they borrow.

PROCEEDINGS OF THE GOVERNMENT OF HIS HIGHNESS THE MAHARAJA OF MYSORE (GENERAL),— DATED 30TH NOVEMBER 1894.

READ—

The following letter, No. 536, dated 22nd November 1894, from the Deputy Commissioner, Mysore District, to the Chief Secretary to the Dewan of Mysore:—

I have the honour to state that some of the respectable raiyats of Palhalli, in the Seringapatam taluk, have resolved to form an agricultural bank, on the lines sketched by the Dewan, in his last Dasara speech. They met on the 18th instant at Palhalli and unanimously resolved to institute the bank and adopted the rules and memorandum of association at the same meeting. The Proceedings embodying the same and signed by all the members is submitted herewith.

2. There are now 16 members on the rolls, and the rules provide for lending not more than Rs. 1,000 to each member. The entrance fee has been fixed at a nominal amount, viz., 4 annas. The rates of interest fixed are Rs. 7 per cent. per annum for loans not exceeding Rs. 100, and 6 per cent. for larger sums, to be recovered at the time of repayment. In other respects, the rules are the same as those contained in the Kanarese draft rules circulated with the Dasara address. The Amildar reports that the members are respectable and solvent, and that a sum of Rs. 16,000 may be lent to them without any risk.

3. I beg that the Proceedings may be forwarded to the Registrar of Joint Stock Companies for registration, and that sanction may be accorded to the institution of the bank, and to the advancing to the bank by Government, from time to time, sums of money not exceeding in the aggregate Rs. 16,000 at any time.

4. I further request that the Government will be pleased to grant the concessions promised in the address for the remission of stamp, registration, and other dues, and for periodical audit by Government servants.

No. 39—*D.H.O., dated Bangalore, 29th November* 1894.

Order thereon.— The memorandum of association and rules will be forwarded to the Registrar of Joint Stock Companies for Registration.

2. The Government are pleased to reduce the stamp duty and registration fees payable on documents executed by, or in favour of, the bank as noted in the appendix.

3. The Deputy Commissioner is authorised to place in the Seringapatam taluk treasury a sum of Rs. 16,000 and to lend to the bank up to the said amount moneys as required for lending to its members. Interest must be recovered from the bank half-yearly up to 31st December and 30th June of each year at 4 per cent. per annum on the sums actually borrowed by the bank.

4. The Comptroller is requested to arrange for careful audit of the bank's accounts and preparation of correct balance sheets every half year.

5. The Government are pleased to note the appreciation of the system of agricultural banks shown by the raiyats of Palhalli, and the readiness with which they have combined to start one in their village, and they hope that intelligent and respectable raiyats in other parts of the province will follow their example before long and avail themselves of the advantages of similar banks.

T. ANANDA ROW,
Chief Secretary.

Appendix to Government Proceedings No. 39—*D.H.O., dated* 30*th November* 1894.

Stamp duty under Act I of 1879.

1. Bill of exchange or promissory note payable otherwise than on demand (article 11, clause (*b*) of the General Stamp Act).
   (*a*) When not exceeding Rs. 100 .. .. 1 anna.
   (*b*) When exceeding Rs. 100 but not exceeding Rs. 1,000 .. .. 2 annas.

2. (*a*) Bond (article 14).
   (*b*) Indemnity bond (article 28).
   (*c*) Mortgage deed (article 14).
   (*d*) Instrument imposing further charge on mortgaged property (article 30, clause (*b*)).
   (*e*) Assignment of interest secured by bond or mortgage deed.
   When the amount does not exceed Rs. 100 .. .. 2 annas.
   Exceeding Rs. 100 but not exceeding Rs. 1,000 .. .. 4 annas.

3. Memorandum of Association of a company with or without articles of association (article 43) .. .. 5 rupees.
4. Articles of Association, article 8 (if separate) .. .. 5 rupees.
5. Power-of-Attorney (article 50) .. .. 4 annas.
6. Agreement (article 5, clause (*c*)) .. .. 4 annas.
7. Release (article 54) .. .. 4 annas.

Registration fees under Act III of 1877, *Section* 78.

1. When the value does not exceed Rs. 100 including schedules .. .. .. 8 annas.
2. Exceeding Rs. 100 but not exceeding Rs. 1,000 .. .. 1 rupee.

3. Search—Free or no fees.		
4. Certified copies	1 anna for 100	words.
5. Attesting power-of-Attorney	4	annas.
6. For attendance of Registering Officers at private residences	2	rupees.
7. Issue of commission	2	rupees.
8. Mileage to Registration Officers or others per mile	2	annas.

Fees under Act X of 1866.

1. Fees for registration of agricultural banking company whatever may be the number of members	1	rupee.
2. For registration of any increase in the number of members	1	rupee.
3. For registering any document, &c.	8	annas.
4. For making record of any fact	8	annas.

PROCEEDINGS OF THE GOVERNMENT OF HIS HIGHNESS THE MAHARAJA OF MYSORE (GENERAL),—DATED 21ST DECEMBER 1894.

READ—

The following letter No. 628, dated 8th December 1894, from the Deputy Commissioner, Mysore District, to the Chief Secretary to the Dewan of Mysore :—

I have the honour to state that some of the respectable raiyats of Kyatanhalli, Seringapatam taluk, have resolved to form an agricultural bank on the same lines as laid down for the bank at Palhalli. They met on the 5th instant at Kyatanhalli and unanimously resolved to start the bank and adopted the rules and memorandum of association at the same meeting. The proceedings embodying the same and signed by all the members are submitted herewith.

2. There are now 19 members on the rolls and the rules provided are similar to those of the Palhalli bank, excepting on the following points :—

Rule 9.—That interest should be recovered at the time of giving the loan.

Rule 12.—That loans on promissory notes should not exceed Rs. 500.

Rule 22.—If any member repays the loan before the expiry of the fixed period, interest shall be refunded to such member for the remaining period at Rs. 4 per cent.

Rule 23.—A cash balance of Rs. 500 shall be maintained in the bank, the excess being remitted to treasury.

3. I beg that the Proceedings may be forwarded to the Registrar of Joint Stock Companies for registration (the registration fees will be forwarded to the Registrar separately), and that the formation of the bank may be sanctioned and permission granted to give the bank advances from the Seringapatam taluk treasury, not exceeding in the aggregate (Rs. 19,000) nineteen-thousand for lending to its members.

No. 10397-9—*G.* 2425, *dated Bangalore,* 21*st December* 1894.

Order thereon.—The memorandum of association and rules will be forwarded to the Registrar of Joint Stock Companies for registration.

2. The Deputy Commissioner is authorised to place in the Seringapatam taluk treasury a sum of Rs. 19,000 and to lend to the bank up to the said amount moneys as required for lending to its members. Interest must be recovered from the bank half-yearly up to 31st December and 30th June of each year at 4 per cent. per annum on the sums actually borrowed by the bank.

L. ANANTASAMI RAO,
for *Chief Secretary.*

MODEL MEMORANDUM AND ARTICLES OF ASSOCIATION OF AN AGRICULTURAL BANK.*

MEMORANDUM AND ARTICLES OF ASSOCIATION OF AN UNLIMITED COMPANY HAVING NO SHARE CAPITAL.

MEMORANDUM OF ASSOCIATION.

The name of this Association is the ..... Agricultural Bank.

2. The Registered office of the bank will be situate at ..... of the .... Taluk, in the ..... District.

3. The bank is essentially rural in its constitution and is established for the relief of agricultural indebtedness within the limited area comprising the villages of..... in ..... Taluk, in the ..... District, by lending money to individual members of the bank at moderate rates of interest out of funds raised by means of the united credit of all the members.

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* No. 4453-62—Fl. 236, dated Bangalore, the 1st November 1895.

ORDER.—Under the provisions of section 95 of the Mysore Companies Regulation No. III of 1895, the Government of Mysore hereby prescribes the following addition to the forms in the Second Schedule of the aforesaid Regulation.

C. SRINIVASIENGAR,
Revenue Secretary.

4. We, the several persons whose names and addresses are subscribed, are desirous of being formed into an agricultural bank in pursuance of this Memorandum of Association :—

Number.	Signature of member.	Address, giving father's name, residence and description of member.	Witness to signature of member.	Date.

ARTICLES OF ASSOCIATION.

Members.

1. No person who does not hold arable land within the local limits mentioned in paragraph 3 of the Memorandum of Association or who does not live within such limits shall be admitted as a member of the bank.

2. The bank shall consist of the members who have signed these articles, and of such other members as may hereafter be admitted in manner following; and the whole of the members for the time being shall together constitute the general assembly.

Provided however that no person who, owing to minority or other cause, is suffering from a legal disability, shall be admitted as a member except upon the written application of his duly appointed guardian or guardians.

3. Any person desirous of being admitted a member shall make a written application to the Board of Directors hereinafter mentioned, who shall place the same before the next meeting of the general assembly. His admission will depend upon the unanimous consent of all the members present at such general meeting. Any member absent from such meeting shall be considered to have waived his right to vote against such admission.

4. An entrance fee of half a rupee shall be paid by each of the members who have signed these articles as well as by each new member who may hereafter be admitted.

Management.

5. The general assembly shall, subject to the provisions hereinafter mentioned, be the final authority on all matters connected with the business of the bank. The general assembly shall appoint one of the members as President and another Agent, and the President and the Agent thus appointed shall hold office until relieved therefrom by others appointed by the general assembly to succeed them. The Agent shall be the Chief Accountant of the bank and shall be responsible for the proper and correct keeping of the bank's accounts.

6. The cash balance in hand, the registers, accounts, title-deeds, documents, and all other property belonging to the bank shall be kept in the bank premises in the custody of the President and the Agent, who shall be responsible for their safety.

7. The registers and accounts to be kept in the bank in addition to those named below, which are indispensable, and all the details in connection with the management of the bank, shall be settled by the general assembly in a manner not inconsistent with these articles, and recorded in the Minute Book maintained in the bank :—

1. Register of members.
2. Register of applications for loans, with the purpose thereof.
3. Cash book.
4. Ledger.
5. Minute book.
6. Half-yearly cash balance statement.

General Meetings.

8. The first meeting of the general assembly shall be held at such time, not more than three months after the incorporation of the association, and at such place as the members may determine.

9. Subsequent general meetings shall be held, at the least, once in every six months, and at such place as the general assembly may prescribe.

10. The above-mentioned general meetings shall be called ordinary meetings; all other general meetings shall be called extraordinary.

11. The directors hereinafter mentioned may, whenever they think fit, and they shall, upon a requisition made in writing by any three or more members, convene an extraordinary general meeting.

12. Any requisition made by the members as above shall express the object of the meeting proposed to be called, and shall be left at the registered office of the bank.

13. Upon the receipt of such requisition, the directors shall forthwith proceed to convene an extraordinary general meeting. If they do not proceed to convene the same within twenty-one days from the date of the requisition, the requisitionists or any other three members may themselves convene an extraordinary general meeting.

Proceedings at General Meetings.

14. Seven days' notice at the least, specifying the place, the day and the hour of meeting, and, in case of special business, the general nature of such business, shall be given to the members in manner hereinafter mentioned, or in such other manner, if any, as may be prescribed at a general meeting; but the non-receipt of such notice by any member shall not invalidate the proceedings of any general meeting.

15. All business shall be deemed special that is transacted at an extraordinary meeting and all that is transacted at an ordinary meeting, with the exception of the consideration of the accounts, balance sheets and the ordinary report of the directors.

16. No business shall be transacted at any meeting unless a quorum of members is present at the commencement of such business. Such quorum shall be ascertained as follows, that is to say, if the members of the bank at the time of the meeting do not exceed ten in number, the quorum shall be five; if they exceed ten, there shall be added to the above quorum one for every five additional members, with this limitation that no quorum shall in any case exceed fifteen.

17. If, within one hour from the time appointed for the meeting, a quorum of members is not present, the meeting, if convened upon the requisition of members, shall be dissolved. In any other case, it shall stand adjourned to the same day in the next week at the same time and place; and if at such adjourned meeting a quorum is not present, it shall be adjourned *sine die*.

18. The President shall preside as Chairman at every general meeting.

19. If, at any general meeting, the President is not present within 15 minutes after the time appointed for holding the same, the members shall choose some one of their number to be Chairman of such meeting.

20. The Chairman may, with the consent of the meeting, adjourn any meeting from time to time and from place to place; but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place.

Votes of Members.

21. Every member shall have one vote and no more; and the resolution of the meeting shall be determined by the majority of votes unless otherwise expressly provided.

22. If any member, owing to minority or other cause, is suffering from a legal disability, he may vote by his duly-appointed guardian or any one of such guardians if more than one.

23. No member shall be entitled to vote at any meeting if he is a defaulter at the time of such meeting.

24. Votes may be given either personally or by a proxy appointed in writing duly signed by the appointer.

25. No person shall be appointed a proxy who is not a member, and the instrument appointing him shall be deposited at the registered office of the bank not less than forty-eight hours before the time of holding the meeting at which he proposes to vote.

26. Any instrument appointing a proxy shall be in the following form :—

.....Agricultural Bank.

I.....of.....being a member of the.....Agricultural bank, hereby appoint..... .....of.....as my proxy to vote for me and on my behalf at the general meeting of the Bank to be held on the.....day of..... and at any adjournment thereof (or at any meeting of the bank that may be held in the year.....).

Date.....
Signature.....
Witness.....

Board of Directors.

27. In subordination to the general assembly, the affairs of the bank shall be managed by a Board of Directors consisting of the President and the Agent and of not less than five and not more than seven members chosen every half-year by the general assembly.

28. The President and the Agent shall have joint power to sign, and to transact business, on behalf of and under the instructions of the Board of Directors. The Agent shall prepare the balance sheet of the bank for every half year ending 30th June and 31st December, and lay it before the President on or before the 15th of July and 15th of January, respectively, following.

29. If the office of President or Agent becomes vacant, the remaining members of the Board of of Directors shall forthwith appoint any member of the bank (whether on the Board or not) as Provisional President or Agent as the case may be, and convene a meeting of the general assembly on the earliest date possible for appointing a permanent successor to the vacant office.

30. A retiring director shall be re-eligible.

31. Subject to the maximum and minimum laid down in paragraph 27 above, the general assembly, may from time to time in general meeting, increase or reduce the number of members constituting the Board of Directors.

32. Any casual vacancy occurring among the members of the Board of Directors may be filled up by the remaining members of that Board; but any person so chosen shall retain his office so long only as the vacating director would have retained the same if no vacancy had occurred.

33. A general meeting may remove any director before the expiration of his period of office, and may appoint another person in his stead. The person so appointed shall hold office during such time only as the director in whose place he is appointed would have held the same if he had not been removed.

Proceedings of Directors.

34. The directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings as they think fit, and determine the quorum necessary for the transaction of business. Questions arising at any time shall, unless otherwise expressly provided for in these articles, be decided by a majority of votes. In case of an equality of votes, the President shall have a second or casting vote. A director may at any time summon a meeting of the Board of Directors.

35. The President shall be the Chairman of the meetings of the Board of Directors; but if at any meeting the President is not present at the time appointed for holding the same, the directors present shall choose one of their number to be Chairman of such meeting.

36. The Board of Directors may delegate any of their powers to a committee consisting of the President, the Agent and such member or members of their body as they think fit. Such committee shall be called the Executive Committee, and shall, in the exercise of the powers so delegated, conform to any regulations that may be imposed on it by the Board of Directors.

Bank's Funds.

37. The bank shall have no share capital, but shall carry on its business with funds raised by means of loans, as well as from deposits received from the members themselves or from others. The aggregate amount of such funds shall not for the present exceed Rs..... The general assembly shall, however, be competent to resolve upon an increase of the funds of the Bank if such a course should at any time hereafter be found necessary owing to the expansion of business.

38. The rates of interest to be paid on loans and deposits shall, from time to time, be prescribed by the general assembly.

39. The liability of the members of the bank shall be equal as between themselves and joint and several as regards all others.

40. The cash balance in the hands of the Board of Directors shall not ordinarily exceed Rs. ..... All sums above this limit shall be lodged in a Government Treasury or deposited in a Government Savings Bank and be drawn upon from time to time as occasion may arise.

Loans.

41. Loans will be granted only to the members of the bank and will be of the following classes :—

Class I. On the security of immovable property.
Class II. On joint pro-notes.
Class III. On joint instalment bonds.
Class IV. On *mubadala* or hand loans

42. A loan of Class IV shall not exceed Rs....., while a loan of any other class may be granted to the extent of Rs..... Provided however that no member shall at any time be indebted to the bank in a larger sum than Rs..... .., including loans of all kinds granted both to himself and to other members on his security.

43. No person who is not a member of the bank, shall be accepted as security for any loan.

44. No loan shall be made except for an approved purpose connected with some agricultural operation which by its profits would enable the borrower to repay the loan, or for the redemption of land from an existing mortgage or for the liquidation of debts of any kind whatsoever existing at the time of the formation of the bank or at the time of the admission of the borrower as a member of the bank. The agricultural operation referred to above shall include the extension or improvement of the borrower's holding, and the purchase of manure, seed, cattle and implements, and other similar purposes.

45. An application for a loan may be made to the Board of Directors, or, where there has been a delegation, to the Executive Committee, either verbally or in writing. The Board of Directors, or the Executive Committee, as the case may be, shall enquire into the object of the loan and into the sufficiency or otherwise of the security offered, and make a record of the result of such enquiry in the register of applications for loans. The applicant and his surety or sureties shall be bound to make true statements on matters thus enquired into. After making all such enquiry as may be necessary, the Board of Directors or the Executive Committee, as the case may be, shall either grant or refuse the loans applied for. Appeals from their refusal shall lie to the general assembly. If a clear majority of not less than two-thirds of the total number of members of the bank other than the applicant and his proposed surety or sureties, if any, should not be in favour of the grant, the refusal made as above shall be affirmed.

46. A loan of Class I—on the security of immovable property—shall ordinarily be repayable in less than five years, and in special cases, in any period not exceeding ten years, by equal annual instalments well within the borrower's annual margin of profits.

47. Loans of Classes II and III—on joint pro-notes and joint instalment bonds—shall ordinarily be repaid in less than a year. They may however be allowed to be renewed from time to time on good cause shown.

48. Loans of Class IV—hand loans—shall not be granted for any period exceeding three months. Renewals may be permitted.

49. No security in addition to the hypothecation of immovable property is ordinarily required in respect of loans belonging to Class I, though in special cases the additional security of one or more members may be required. Nor need any security be demanded for loans falling under Class IV. As regards loans coming under Classes II and III, there should be at least two sureties.

50. The highest rates of interest chargeable on the different kinds of loans are as follow:—

Class I, 6 per cent. per annum if the loan does not exceed Rs. 100, and 5½ per cent. when it exceeds Rs. 100. Where the loan is repayable by annual instalments, interest is chargeable only on so much of the loan as is actually outstanding in the beginning of each year.

Class II, 7 per cent. when the loan is Rs. 100 and under, and 6 per cent. when it exceeds Rs. 100.

Class III, 8 per cent. when the loan is Rs. 100 and under, and 7 per cent. when it exceeds Rs. 100. The interest is chargeable only on so much of the loan as is actually outstanding on the 1st of every month.

Class IV, 1 pie per diem for every Rs. 20.

51. The general assembly shall be at liberty to fix from time to time the actual rates at which interest should be charged, such rates not exceeding the maxima above prescribed.

52. The general assembly shall likewise be competent to fix and prescribe from time to time, the time at which and the mode in which the interest chargeable on the several descriptions of loan made by the bank, shall be recovered.

53. When a loan is repaid or recalled before the time fixed for its repayment, a proportionate reduction or refund shall be allowed of the interest payable or paid on account of such loan.

54. Absolute punctuality of repayment shall be enforced under pain of such fine as may be imposed by the general or special direction of the general assembly for ordinary and excusable defaults, and of expulsion, as hereinafter provided, for persistent defaults.

55. No loan shall be appropriated for any other purpose than that for which it is obtained. Its appropriation for any other than an approved purpose shall render it liable to be recalled by a notice not exceeding three weeks.

Disposal of Profits.

56. The interest due on loans and deposits, the charges of establishment and the cost of contingencies, shall be met from the interest levied on the different kinds of loans made by the bank and from the entrance fee levied from the members on admission, as also from the fines referred to in paragraph 54 above. The surplus shall form a reserve fund which shall not be divisible among the members, but shall, after meeting unforeseen losses, if any, go towards the reduction of the loans and deposits required for carrying on the business of the bank.

57. The members shall receive no remuneration for their services in connection with the bank.

Removal, Resignation, Death, &c.

58. Any member persistently guilty of default or of violation of the rules, or of gross neglect of duty, shall render himself liable to removal from membership by the votes of a majority of the general assembly.

59. Any member who may permanently leave the local limits referred to in paragraph 1 or who may cease to hold arable land therein, shall cease to be a member of the bank from the date of such departure or cessation.

60. Any member shall be at liberty to sever his connection with the bank by tendering a written resignation to the Board of Directors or the Executive Committee.

61. The death of any member shall result in the removal of his name from the Roll of Members, unless his legal heir or representative shall, in writing, consent to take his place with all his liabilities and obligations.

Provided, however, that if such legal heir or representative is, owing to minority or other cause, suffering from a legal disability, he shall not be allowed to take the place of a deceased member except upon written application made by his duly appointed guardian or guardians.

62. The removal or resignation of a member under paragraphs 58, 59, 60 or 61, shall secure for him and his assets, or for his assets, as the case may be, freedom from all liability for loans and deposits obtained, or in respect of loans made, and acts done or omitted to be done, subsequent to the date of his removal or resignation, but shall in no way affect liabilities contracted by the bank previously thereto.

Accounts.

63. The accounts of the bank shall be audited by a committee of three members, to be called the Audit Committee.

64. The first Audit Committee shall be nominated by the Board of Directors out of the body of members of the bank.

65. Subsequent Audit Committee shall be nominated by the general assembly.

66. The Audit Committee shall be supplied with a copy of the balance sheet, and it shall be their duty to examine the same with the accounts and vouchers relating thereto.

67. The Audit Committee shall have a list delivered to them of all books kept by the bank, and they shall at all reasonable times have access to the books and accounts of the bank; and they may, in relation to such accounts, examine the President or Agent or any other member of the Board of Directors.

68. The Audit Committee shall make a report to the general assembly upon the balance sheet and accounts; and in every such report they shall state whether, in their opinion, the balance sheet is a full and fair balance sheet containing the particulars required, and properly drawn up, so as to exhibit a true and correct view of the state of the bank's affairs, and in case they have called for explanations or information from the Board of Directors, whether such explanations or information have or has been given by the Board, and whether they or it have or has been satisfoctory; and such report shall be read together with the report of the Board of Directors at the next ordinary general meeting.

69. The powers conferred, and the duties imposed upon the Audit Committee shall, as far as may be, be exercised and performed by such officer or officers as the Government may, from time to time, appoint for the purpose of auditing the accounts of the bank or enquiring into its affairs.

Notices.

70. A notice may be served by the bank upon any member, either personally, or by sending it through the post in a letter addressed to such member at his registered place of abode.

71. Any notice, if served by post, shall be deemed to have been served at the time when the letter containing the same would be delivered in the ordinary course of the post; and, in proving such service, it shall be sufficient to prove that the letter containing the notice was properly addressed and put into the Post Office.

General.

72. No member shall so deal with his property as materially to diminish his resources and affect his solvency, on the strength of which he has been admitted to the benefits of this bank.

73. It shall be lawful for the Board of Directors or the Executive Committee as the case may be, subject to the approval of the general assembly, to re-call by three week's notice any loan made to, or on the security of, any member who by his conduct or dealings has endangered the security of any loan granted by the bank or who has ceased to be a member of the bank under paragraphs 58, 59, or 60, or whose legal heir or representative after his death, does not take his place notwithstanding the non-existence of any legal disability.

Provided however that no loan shall be liable to be recalled by reason merely of such legal heir or representative not taking the place of the deceased member in consequence of his minority or other legal disability.

74. Any loan made to the bank by Government shall be deemed to be an advance made for agricultural objects to the members of the bank as holders of arable land, within the meaning of section 194 of the Mysore Land Revenue Code, and the same shall be recoverable from the members jointly and severally as an arrear of land revenue under the provisions of the Mysore Land Revenue Code or of any other law for the time being in force.

75. If, owing to resignations, deaths, removals or other causes, the total number of members of the bank should at any time fall below two-thirds of the number which constituted the bank on the date of its formation or on the date of the augmentation of its funds, or if according to a majority of votes at a general meeting there exists a disagreement among the members so serious as to render the further continuance of the bank undesirable, or if Government directs the recovery of loans made by it to the bank on the ground that the affairs of the bank are in an unsatisfactory condition, all further transactions shall be stopped, and all outstanding loans of whatever description shall be recalled by a notice not exceeding three months, at the end of which period the bank shall be wound up under such arrangements, not inconsistent with law, as shall be decided upon at a general meeting to be convened for the purpose. The members shall however continue responsible for the due discharge of all existing debts and liabilities.

76. When the bank is wound up, all surplus remaining at its credit shall be used for such purpose of local general utility as shall be resolved upon by the majority of the members at a general meeting subject to the approval of Government.

Number.	Signature of member.	Address, giving father's name, residence and description of member.	Witness to signature of member.	Date.

No. 5038-47—Fl. 274, DATED BANGALORE, 2ND DECEMBER 1895.

ORDER.—One hundred copies of the Form of Memorandum and Articles of Association prescribed for use by agricultural banks in the Proceedings of Government No. 4453-62, dated 1st November 1895, will at once be supplied to each Deputy Commissioner for distribution among the several taluks in his district.

2. The Superintendent of the Government Press should arrange to have a supply of 1,000 copies of the Form in stock so as to enable him to meet future demands without delay.

3. The Deputy Commissioners are requested to give wide publicity to the scheme and to place promptly and free of cost at the disposal of applicants as many copies of the form as may reasonably be required by them.

4. All applications to Government for the grant of loans to agricultural banks should be made to the Deputy Commissioner, and should be accompanied by memoranda and articles of association in the form above referred to. The Deputy Commissioner should satisfy himself as to the solvency of the applicants and the *bonâ fides* of their applications, and submit his recommendation to Government with the least practicable delay, with information regarding the applicants in the appended form and with an extract from the taluk map of the villages of the applicants.

5. Until further orders, Government will be prepared to grant loans to agricultural banks within reasonable limits, at four per cent. per annum.

6. It is the wish of Government that as a rule, no loan of Class IV should, for the present, exceed Rs. 50, while no loan of any of the other three classes should exceed Rs. 1,000 : nor should any member be at any time indebted to the bank in a larger sum than Rs. 2,000 including loans of all descriptions, granted both to himself and to other members on his security. Any case requiring an exceptional treatment in this respect should be specially reported for the orders of Government.

C. SREENIVASIENGAR,
Revenue Secretary.

Proposed name of the Bank and the names of villages to be benefited by it.	Names of members.	Residence of members.	Arable land possessed.				Probable value of land.	If encumbered, how and for how much.	Remarks.
			Kandayam land.		Inam land.				
			Area.	Assessment.	Area.	Jodi or quit rent.			

CHAPTER III.—POPULAR BANKS.

GERMAN LAW OF 1ST MAY 1889 ON CO-OPERATIVE SOCIETIES.

CHAPTER I.—FORMATION OF A SOCIETY.

1. Societies which do not limit the number of their members, and have as their object the encouragement of the economic interests of members by means of operations in common, especially—
   (*a*) loan and credit societies;
   (*b*) societies dealing with raw materials;
   (*c*) societies for the sale in common of agricultural and industrial produce;
   (*d*) societies for the production and sale of goods for the common account;
   (*e*) societies for the wholesale purchase for the common account of food stuffs and agricultural requisites, and for their retail sale to members;
   (*f*) societies for the acquisition of implements or machines for agricultural and industrial purposes, or for use in common;
   (*g*) societies for the acquisition of houses;
   obtain the rights of a 'Registered society' under the conditions laid down by the law.

2. Societies may be instituted—
   (*a*) of such a kind that the members are individually responsible to the society for its engagements and directly to its creditors up to the total of their property (societies of unlimited liability);
   (*b*) *of such a kind that the members, though responsible up to the total of their property, are not so responsible directly towards the creditors of the society, but are merely bound to pay to the society such additional sums as may be necessary to satisfy the creditors (societies of liability unlimited, but responsible for *pro ratâ* contributions);
   (*c*) of such a kind that the members are responsible for the engagements of the society only in a sum determined beforehand (limited societies).

3. The designation of the society must set out the object of the enterprise, and indicate whether it is limited or unlimited according to the definition of section 2.

The names of members or others must not appear† in the designation of the society. Such designation must clearly distinguish it from any other registered society already existing in the same neighbourhood or parish.

4. There must be at least seven members for the operation of a society.

5. The articles of association must be in writing.

6. The articles must contain—
   (*a*) the designation and address of the society;
   (*b*) the object of the enterprise;
   (*c*) the arrangements for the summoning of general meetings, for the confirmation of its resolutions, and for the presiding over such meetings;
   (*d*) ‡ the arrangements for publishing the society's affairs and the official journals in which they are to be published.

7. The articles must further determine—
   (*a*) whether the responsibility of members is unlimited [section 2 (*a*) and (*b*)] or limited [(section 2 (*c*)];
   (*b*) § the maximum amount for which any member may take shares. The amount to be paid up must also be determined; such amount must be at least one-tenth of the share value;

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* Explanation is required: the first class of society is governed by the right (Einzelangriff, saisie sur un seul) recognized by the law of 1868, by which any creditor of a society or liquidator might select any member or members he chose from whom to recover the whole of his dues, leaving such member to recover from the liquidating trustee. The present law has created a new class of unlimited society in which the right of Einzelangriff is not recognized, but the creditor must apply to the liquidating trustee who may call upon every member to pay in such additional sums as will make up any deficit due by the society.

The third class of society admits not only the ordinary form of society by which the responsibility of members is limited to the nominal value of their shares, but a form by which each member may be called on to pay such further sum—usually a multiple of the share value—as has been determined in advance by the articles of association.

See sections 112 to 139 for further special provisions for each class of society.

† It is thus seen that the societies are not partnerships, but are of the class called sociétés anonymes in the French law, and as the number of members and shares is, by the definition of section 1, unlimited, and will constantly be increasing or decreasing (section 63, &c.), they are also 'à capital variable.'

‡ It is important to observe that the law requires the publication of every society's articles (section 12), its annual balance sheet, &c. (section 31), its dissolution or liquidation (section 80), the results of liquidation (section 88), &c. Publicity is, in every European country, the first requirement; everything must be laid open to the public view.

§ Sub-section (*b*) is intended to favour the democratisation of the societies: the clause suggests the limitation of an individual's shares so as to prevent a preponderance of capitalists, and hence a divergence from the co-operative idea. But this sub-section is also the expression of the legislature on the debated share question. The Raiffeisen societies rejected the idea of shares as leading to a desire for high dividends and as unnecessary: the law decides that shares are necessary. But they leave the societies to determine the value of the shares and the amount to be paid up. Hence a society may fix the value of its shares at 1 mark (shilling) and require only one-tenth to be paid up: this, it is believed, is actually done by some societies. Moreover, this one-tenth may be spread out over many instalments extending over several years. Hence the law can practically be evaded or reduced to an absurdity. Sub-section (*d*) is most important: the reserve plays a very large part in these societies, especially in the Raiffeisen Unions. It is much neglected in the Madras Nidhis; *see* sections 20 and 156.

(*c*) the principles for the preparation and verification of the balance sheet;
(*d*) the formation of a reserve to cover any losses; the mode of forming the reserve must be especially stated, and especially the proportion of the annual profits which is to be carried to the reserve, and the maximum amount of such reserve.

8. The articles should also contain provisions if it is intended to determine—
(*a*) the limitation of the duration of the society to a fixed time;
(*b*) *the delimitation of the area from which members may be accepted;
(*c*) the business year;
(*d*) †the majority which shall be required in a general meeting to decide certain matters;
(*e*) ‡the extension of the operations of the society to persons who are not members. But societies which are established for credit purposes may not extend their operations, so far as the giving of such credit is concerned, to persons other than members. Societies for distribution [section 1 (*e*)] may not ordinarily sell goods except to persons recognized as members or to their representatives.

9. A society must have a directorate and council of supervision, the members of both of which must be members of the society. If a society has registered societies as the whole or part of its members,§ the individual members of such societies may become members of its directorate or council of supervision.

10. The ‖ articles and the names of the directors must be copied out and entered on the register of societies by the court within whose jurisdiction the society is located.

The register of societies is kept by the court, whose duty it is to maintain the register of commerce.

11. It is the directors who are bound to give notice of intended registration.

To this notice must be added—
(*a*) the articles, which must be in duplicate and signed by all the existing members;
(*b*) a list of the members;
(*c*) a copy of all papers relating to the appointment of the directors and of the council of supervision. The directors must also enter their signatures before the court, or transmit their signatures in the prescribed form. One copy of the articles is attested by the court and returned with an appended certificate of registration. The other papers are retained by the court.

12. The articles as registered must be published in abstract by the court.

The published notice must contain—
(*a*) the date of the articles;
(*b*) the designation and address of the society;
(*c*) the object of the enterprise;
(*d*) ¶ the forms in which the society's returns will be made and the names of the official journals in which they will be published;
(*e*) the duration of the society, if it is for a limited term;
(*f*) its regular business year when such does not correspond with the calendar year;
(*g*) the names and addresses of the directors.

It must also be notified that the list of members may be examined by the public at any time that the court is open.

If the articles provide a mode in which the directors shall publish their resolutions, and if they are authorized to sign for the society, such fact shall also be notified.

13. Until a society has been entered on the register, it does not possess the rights of a registered society.

14. Whenever a branch is established in any place, the court having jurisdiction in that place must be advised of the fact, with a view to registration of the branch. The notice must contain entries

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* Schulze-Delitzsch Societies have no fixed area unless of the Province in which each is established. But Raiffeisen Societies are strictly limited to very small areas, usually a village.

† Generally speaking, an ordinary majority suffices, but for particular purposes, *e.g.*, an alteration of the objects of the society, a special majority may be required, *cf.* section 16 *infra*.

‡ This is very important. Credit societies must, so far as the grant of credit is concerned, lend only to members. This is intended to prevent co-operative loan societies from becoming mere joint stock banking concerns and to preserve the co-operative idea; it is equally intended thereby to safeguard the societies, for it was found by experience that, owing to the greed for dividends and for that increase of *directors'* profits which was due to the grant of a commission on business done, risky outside business was undertaken, for which the directors had no sufficient experience or qualification. The co-operative idea connotes membership, and no departure from it should be allowed. This does not forbid borrowing from outside whether by loans or deposits: it is the lending of the society's money to outsiders that is forbidden.

§ This is to provide for the case of central societies or unions which accept as members, in whole or part, individual societies; *see* section 52, &c., *infra*.

For the duties, &c., of directors and councils, *see* Chapters III and IX of this law.

‖ This section relates to the provisions of the Code of Commerce, by which all business men (commerçants) or societies registered as commerçants (*see* section 17 below) must be registered at a Commercial Court. An account of these provisions and of these courts would be too lengthy to find place here; some of them and of the duties of the courts and of commerçants will be found elsewhere. Suffice it to say that every European country looks after its traders and their accounts,—and taxes them too,—in a fashion not dreamed of in England or India, and that its Commercial Courts are excellent institutions, presided over by Honorary Judges, which hear most of the original commercial cases; they were unknown in England till lately, but a Commercial Court has, it is believed, recently been established in London. In this law the court takes the place held by the Registrar of Friendly, &c., societies in England. For a description of his powers *see* 'Friendly Societies' in Vol. I. Some such controlling or supervising authority is found absolutely necessary in the matter of co-operative societies and savings banks whether in England, America or the Continent of Europe.

As stated above, publicity is a principal European method of supervision over the work of societies.

¶ It would seem better to give power to the court or some public officer to prescribe the forms: this is done by the Registrar of Friendly, &c., Societies in England.

as mentioned in section 12, and two certified copies of the articles must be appended, together with a copy of the list of members attested by the court having jurisdiction at the address of the parent society.

The court will return one copy with a certificate of registration, and must inform the court having jurisdiction at the address of the parent society, of this registration, with a view to its being entered on the register of societies.

15. After the articles have been entered at the registering office, any person desiring to become a member must sign a declaration of unconditional adhesion to the articles. If the candidate is admitted by the directors, the declaration must be sent to the court for entry on the list of members: this entry will at once be made. Upon such * entry by the court, the candidate attains the status of a member.

The court must notify the fact of the entry to the member and to the directors. The original declaration is filed by the court. But if the court refuses to enter the candidate as member, the declaration is returned.

16. Every change in the articles, or extension of duration of a terminating society, must be settled only by a general meeting. If it be proposed to change the object of a society or to increase the individual value of the shares,† there must be a majority of three-fourths of the members present at ‡ the meeting. The articles may impose even stricter conditions. For all other modifications of the articles a majority of three-fourths of the members present is required, unless the articles contain conditions to the contrary.

Such resolutions must be notified (to the court) and registered, two copies, as provided in section 11, being sent. But the resolution need not be published, unless it has to do with the items mentioned in section 12 (*b*) and (*c*).

The resolution is of no effect until duly registered.

Chapter II.—Relation of the Society with its Members.

17. A registered society has, as such, certain rights and duties; it can acquire estates and real rights over property: it can institute a suit and be sued before a court.

Societies are considered as business entities (commerçants) in the sense of the Code of Commerce, if the present law contains no condition to the contrary.

18. The legal relations of a society with its members are established by its articles. These articles must not contain any condition at variance with any stipulation of the present law unless such variation is expressly permitted by the law.

19. The profit or loss resulting from the transactions of any year may be divided amongst the members. For the first year this division must be in proportion to the sums paid up by each member on his shares; for each subsequent year, in proportion to the amount paid up by the close of the preceding year, such amount being credited with any gains and debited with any loss. Profits will be simply carried to the credit of a member until his share is doubled.

The articles may make other rules for the division of profit and loss in such wise as to determine in what proportion the profits are to be distributed to members before the shares have been fully paid up. When the share amounts have been reduced by losses, profits must not be divided till the share value has been again made up.

20. The articles may determine that, for a fixed period which may not exceed ten years (profits shall not be divided § but shall be carried to the reserve. At the end of that time the decision may be renewed, for which purpose, a simple majority will suffice unless the articles contain any conditions to the contrary.

21. (Omitted.)

22. The reduction of the share values ‖ or of the instalments due thereon or the extension of the instalment dates are only allowable upon the conditions laid down for the division of capital in case of liquidation.

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* Here again publicity is the essence of the transaction. Just as a mortgage deed in Germany, though duly signed and attested, is of absolutely *no effect* until it is duly registered, so a candidate, though duly accepted, does not acquire the status of member till registered. The elaborate procedure laid down by this section seems unnecessary: it would probably suffice if the directorate send in a quarterly attested list. Nothing is stated as to the grounds upon which a court may refuse entry.

† It is frequently found advisable as a society grows older to continue the habit of thrift and to increase the working capital by increasing not the number which is unlimited (section 1), but the value of the shares, *e.g.*, from £5 to £10.

‡ It is noticeable that no provision is laid down as to the proportion of members to be present at a meeting to the total number of members, even when a radical change is to be made. Hence a packed meeting of a very few members might radically alter the objects, &c., of a society. A radical change in constitution ought to be safeguarded by requiring the agreement of a definite proportion of *members*, not of members present at a meeting.

As regards the above two changes, the law absolutely requires a three-fourths majority; in other cases a three-fourths majority can be dispensed with by the articles.

§ The Raiffeisen Societies have only small shares and therefore only small dividends proper; the bulk of the profits go to a reserve. According to the present law, a society cannot enter in its articles a provision rejecting dividends absolutely, but only for ten years. But the ten-year period can be indefinitely renewed, and by cutting down the interest on loans or by expending profits on public objects, there need be no difficulty.

Nevertheless the provision seems inadvisable: why should not each society be left to decide for itself permanently by its articles, whether it will or will not adopt the dividend principle? Moreover, what was intended to be a sop to the Raiffeisen ideas is really, as M. Durand points out, a blow in the face, for it enables Raiffeisen Societies established on the non-dividend principle, to adopt the dividend system at the end of ten years by mere efflux of time and without vote: in other words a society may change its whole principle of action without any resolution to that effect by its members! And even if the matter be debated, the resolution may be carried by a simple majority, whereas a three-fourths majority is ordinarily required even for an ordinary modification of the articles of association.

‖ By reduction of share values is to be understood the value of the individual share, *e.g.*, from £10 to £5, not of the total share amount, for that is constantly increasing and decreasing. The reduction of the value of individual shares is, *pro tanto*, equivalent to a division of the society's capital: hence the provision of the law; *see* sections 88 and 89 *infra*.

The share of a member, so long as he has not retired from the society, can neither be returned to him by the society nor accepted as security in its operations with him.

A member cannot set off the value of his share in a settlement of accounts.

23. Members are responsible for the obligations of a society to the extent determined by the present law.

Any one entering a society becomes responsible for obligations contracted before such entry.

Any stipulation contrary to the above is void.

Female members cannot avail themselves of any (special) legal privileges granted to them by the general law of the country, so far as regards obligations contracted by them in virtue of their membership. *

Chapter III.—Administration.

24. A society is represented, both judicially and otherwise by the directorate.

The directorate should be composed of at least two members appointed by the general meeting; the articles may fix a larger number of directors and other modes of appointment.

The directors may be either paid or unpaid. Their appointment may be revoked at any moment without prejudice to any liabilities due by reason of existing arrangements.

25. The directors must signify their acceptance of office in the prescribed form. If no special stipulation has been made in this respect, all the members of the directorate should sign the declaration, and in any case not less than two should be appointed for the purpose. The signature must add the designation of the society to the signature of the signing directors.

26. A society is legally bound by the arrangements concluded in its name by the directorate.

A certificate by the court (section 10) that the persons entered therein are entered as directors in the register of societies is sufficient proof of their status and powers as directors.

27. The directors are bound, as regards the society, by the restrictions entered in the articles, or in the resolutions of general meetings as regards their right to represent the society.

As regards third parties such limitation of the directors' right to represent the society is of no legal effect, † especially in cases when the directors' powers extend only to certain operations or classes of operations, or for a given time or area, or when the approval of a general meeting is required or that of the council of supervision or of any other organ of the society.

28. Every change in the *personnel* of the directorate, any new election, or any total withdrawal of their powers, must at once be notified to the court for entry in the register of societies. New directors must at once give their signatures before the court, or send them on a properly certified form. A copy of the documents relative to their appointment or to the withdrawal of their powers must be sent with the notification for being filed in the court. At every re-election registration shall be followed by publication.

29. Any modification in the directorate, or withdrawal of powers from a director, cannot be pleaded by a society as against a third party so long as such modification, &c., has not been duly registered and published, unless the society can prove that the party was aware of the modification, &c., at the time when the contract was arranged. After such registration and publication a third party will be bound to admit it as against himself, unless circumstances admit of his proving that, at the time of the operation, he neither knew nor could know of the modification, &c.

30. The directors must maintain a statement of members and keep it up to date.

31. The directors are bound to see that the society keeps the books ‡ prescribed (by law).

Six months after the expiry of each business year, the directors must publish the balance sheet, the list of members who have entered or withdrawn during the year, and the number of those on the list at the end of the year. These returns must be sent for entry on the register of societies.

32. The directors must conduct the affairs of the society in a thoroughly business-like fashion. Those who neglect their duties are responsible both individually and collectively to the society for any loss so caused. They are especially liable to repay any sums which they may have paid as profits out of capital contrary to the provisions of sections 19 and 22. But no proceedings shall lie after the lapse of five years.

33. Any stipulations regarding directors are equally applicable to their representatives.

34. The committee of supervision shall consist of three members unless the articles prescribe a greater number: they must be elected by the general meeting. The articles should fix the proportion of votes required for such elections.

Members of the committee must have no interest (pecuniary) in the results of the society's operations. The appointment of any such member may be revoked by a general meeting even before the expiration of his term of duty. In such case the vote must be given by a majority of three-fourths of the members present at the meeting.

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* This last paragraph seems to mean that a female member who, as a female, might possibly, under the general law, evade payment of a debt, cannot plead any such law as against her obligations contracted with the society.

† That is, a society has its remedy against directors who exceed their powers, but is bound as regards contracts duly entered into in good faith with third parties, even though the directors have exceeded their powers in making such contracts.

‡ The Commercial Code of every European country requires that not only every society or firm, but every 'commerçant,' *i.e.*, business man, trader, shopkeeper, money-lender, &c., &c., of every description, who is liable under the law to take out a license (patente), *i.e.*, every one who trades except perhaps costermongers, must keep certain prescribed accounts. The importance of the subject as regards money lending, especially under the régime of the private money-lender or usurer and his generally ignorant clientèle, is so great that it is dealt with in full in the body of this report; *see* Vol. I, pp. 322, 323.

This section (31) is very important: regular accounts and full publicity are prescribed.

35. The members of the committee of supervision * must not, at the same time, be members of the directorate or permanent representatives of directors, nor be in charge of the society's operations as employés. For a certain period, to be determined beforehand, the committee may appoint any of its members to represent any directors under suspension during this period, and until he has been formally discharged from this duty, such member of committee may not exercise his functions as such member of committee.

If directors retire, they cannot be elected to the committee of supervision until their retirement from the directorate has been duly notified.

36. The committee of supervision must supervise the directorate in every branch of operations, and for this purpose must keep itself informed of the progress of business. It can, at any time, call for reports from the directors upon business matters, and can examine, either directly or by (ordinary) members appointed by it, the books and papers of the society, in order to verify the cash balance and the assets in bills, bonds, goods, &c. It is bound to examine the annual statement, the balance sheets, and the proposals for the distribution of profit and loss, and to make a report on these points to the general meeting before the balance sheet is passed.

It should call a general meeting whenever such may be advisable.

The other duties of the committee are determined by the articles of each society.

Members of committee cannot delegate their duties to other persons.

37. The committee represents the society in concluding contracts with the directorate, and brings against the directors any action (suit) determined upon by the general meeting.

A director can obtain credit from a society only after due authorization by the committee of supervision, unless other stipulations have been made on this point, or unless such credit be absolutely forbidden. The same rule applies in the case of a director offered as surety for a loan. In case of proceedings against the committee of supervision, the society is represented by persons chosen at a general meeting and provided with powers of attorney *ad hoc*.

38. The committee is authorized in its judgment provisionally to suspend directors from their duties pending the decision of a general meeting to be at once convoked, and to take all measures necessary for the temporary conduct of their duties.

39. The members of the committee must conduct their duties in thorough business fashion: those who neglect them are responsible to the society, individually and collectively, for any damage so caused.

They are especially bound to repay any capital wrongly disbursed as in section 32 (*q.v.*) when they have been cognizant of such disbursement though not actually concerned in it.

A limitation of five years is prescribed for any proceedings under this section.

40. A society may also carry on (particular items of) business and be represented in such business by other persons if duly provided with powers of attorney, *ad hoc*, or by its employés. In such case these persons exercise such powers as may be delegated to them, and in case of doubt, such legal powers as are ordinarily required for the conduct of the particular class of business.†

General powers of attorney for the conduct of its whole business are not admissible.

41. The rights granted to members of a society in regard to the business of the society, especially with reference to the conduct of business, the examination of the balance sheet and the distribution of profit and loss are exercised by the general meeting.

Each member of a society has one ‡ vote.

A member cannot vote on the subject of his exemption or discharge from a particular obligation. Nor can he do so in a matter affecting any legal question between himself and the society.

Members cannot exercise their power of voting by proxy. This rule does not apply to entities *incapable* of personal voting, such as corporations, associations or other unions, or to females if the articles forbid their actual participation in a general meeting.

A proxy can only represent one member.

42. General meetings are convoked by the directors, unless other persons are similarly authorized by the articles or by the present law.

Such general meeting must be called whenever the interests of the society require it, as well as at such times as may be expressly laid down by the articles or by the present law.

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* The committee of supervision is a European addition to the administration of societies and is most important. Its duties will be found in detail under the various classes of co-operative societies described in Vol. I, in the following sections of the law, and in the model articles. To some extent this committee is found in the audit committees—where they exist—of the Madras Nidhis, but in the German Law, audit is separately and expressly provided for, this provision being the result of experience.

The importance attached to this committee may be judged from the severe penalty entered in section 142 for the non-appointment of such a committee.

† This section provides for a society giving powers to particular individuals for the conduct of special work. But as the directors are the proper representatives of a society, the last clause, forbidding general powers of attorney, prevents a society from practically ousting its directors without dismissing them.

‡ In these co-operative societies, the democratic principle of 'one man one vote' is prescribed by law. This is intended to preserve the idea that the society is an aggregation of individuals not of capital, and to prevent the accumulation of power in one or a few hands. At the same time the principle has the objection that the ignorant member of one share has just as much power as the experienced director or business man.

The refusal to admit proxies is deliberately entered so as to bring the members themselves to meetings, and get them to take a lively and personal interest in the society and its conduct, and to prevent a few persons from carrying their personal views by means of lightly and ignorantly given proxies. It is a very valuable co-operative principle, especially where societies are small, as in the Raiffeisen Societies.

In Italy it is generally provided by the articles of societies that members failing to attend a general meeting without reasonable excuse are liable to a small fine.

It will be observed that females are impliedly admissible as members of a society. Nor does the law forbid them to become office-holders or directors.

43. A general meeting must be at once convoked when demanded by one-tenth of the members, or by a smaller fraction if the articles so stipulate: the demand must be made in writing with a statement of the object and reasons of the demand.

Members may require in a similar manner that the matters submitted to decision in a general meeting shall be published. If such demands are not complied with, the court (section 10) may authorize the members who have made the demand to call a general meeting or to publish the required matter. This authorization must be published together with the summons for the meeting or with the publication of the matter.

44. A general meeting must be summoned in the mode prescribed by the articles with at least one week's notice.

The summons must invariably state the object of the meeting. No subject can be voted upon at a meeting if it has not been announced in the mode provided by the articles, or under section 43, at least three days before the meeting, save only matters relating to the chairmanship of the meeting and proposals to call an extraordinary general meeting.

Such previous notification is not necessary either for the mere formulating of proposals to be laid before a meeting or for debates without actual voting.

45. The resolutions of a general meeting must be entered in a minute book, and must be communicated to each member and to the State authorities.*

46. The general meeting must pass resolutions regarding the balance sheet, and fix the amount of profit or loss to be distributed among the members.

The balance sheet and the statement of profit and loss must be placed at the disposal of members or otherwise brought to their notice, at least one week before the meeting, either in the society's office or some other convenient place. Every member is entitled to demand, at his own cost, a copy of the balance sheet and of the (abstract) account of the year.

47. The general meeting must fix—

(*a*) the total amount which the borrowings of the society and the deposits made with it by savings banks must not exceed ;†

(*b*) the maximum amount to be granted to members by way of credit.

48. When the articles require payment of shares by instalment without settling the amount and date of them, the general meeting alone can decide these points.

49. A resolution of a general meeting may, by means of a plaint, be impeached as invalid by reason of its being contrary to law or to the articles. No plaint can be filed within one month of the date of the resolution. Not merely the directors, but any member present at the meeting, may thus impeach a resolution, but only if he has declared his dissent from the resolution in the minutes of the meeting. Any member who was not present may also impeach a resolution, but only on the ground of irregularity in calling the general meeting or in notifying the subject of the resolution.

The plaint must be filed against the society. This will be represented by the directorate, unless this latter body is itself the plaintiff, and by the council of supervision. The court having jurisdiction over the district in which the society is located can alone receive such plaint. The hearing cannot take place till after the period mentioned in the preceding paragraph.

The filing of the plaint and the date of hearing must at once be notified by the directorate in the customary official journals.

If the resolution is declared invalid by a judgment, such judgment is binding upon all members though not parties.‡ The judgment is to be transmitted by the directors to the court § (section 10) for entry on the register of societies.

50. Plaintiffs who file a suit maliciously and without due cause are responsible to the society for any damage caused by their action.

Chapter IV.—Examination and Audit.

51. The organization of every society and its management in every branch must be submitted at least once in two years to the examination of a competent auditor not belonging to the society.

52. When societies belong to a union, the latter will, if it complies with the following conditions, be granted the right of appointing the auditor.

53. The union must have, as a distinct object, the inspection of the societies which belong to it, and may also otherwise watch over those of their interests mentioned in section 1, especially the maintenance of mutual relations between the societies.‖

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* The words 'State authorities' is defined in section 171 *infra*.

† Under the word 'borrowing' is included deposits other than those of savings banks, for these form usually a large portion of the working capital derived *ab extra*.

The provision as to savings banks' deposits discloses a source whence many credit societies draw much of their funds: savings banks and popular banks mutually support each other. A savings bank, though not well adapted for ordinary credit banking business, can lend lump sums to societies which make credit their business.

Every society fixes a maximum for its loans: not the total amount to be lent, for that cannot be foreseen, but the total which may be advanced to individual members. This prevents influential individuals from obtaining an undue share of the funds.

‡ This seems obvious, since the plaint is to be filed 'against the society,' which necessarily includes all members.

§ The 'court' is not necessarily the court which tries the case. By section 10, the court which keeps the registers of societies is the court which keeps the commercial register. This is usually, if not always, a court in a town, and the court which has cognizance of these plaints is the court which has general jurisdiction over the district and is probably, therefore, not the ordinary Town or Commercial Court.

‖ Section 1 describes the economic objects to which co-operative societies devote themselves, *e.g.*, credit, production, distribution of raw and manufactured materials, the purchase of agricultural, &c., implements, the acquisition of houses, &c.

54. The objects of the union must be entered in its articles, which must show that the union is likely to be able to carry out the business of audit. The local area of the union, the number of societies which it will receive as members, must be mentioned, as also stipulations regarding the selection and appointment of auditors, the nature and limits of their audit, the formation, place of business, and powers and duties of the directorate and other organs of the union.

55. The right to appoint auditors is granted by the federal council when the union extends over several federated States; otherwise by the central authority of the State. Any modifications of the articles of a union must be communicated to the authorities having jurisdiction as mentioned in the preceding sentence.

56. The directors of the union must, every January, send the articles with a certified copy of the Government order granting the right of appointing an auditor, and a statement of the societies forming the union, to the courts within the jurisdiction of which the several societies have their place of office, and also to the chief authorities who have jurisdiction over the place of office of the union.*

57. The general meeting of the union must be held solely within the limits of the union. Notice of such meetings, with a copy of the programme, must be sent at least a week in advance to the chief authorities both of the district in which the union holds office and of that in which the meeting is to be held. The latter authority has the right of sending a representative to the meeting.

58. The right of appointing auditors may be withdrawn from the union—

(1) if it is guilty of acts contrary to the law by which the common weal is endangered, or if it follows other objects than those mentioned in section 53;

(2) if the union is unable to fulfil the duty of audit, such withdrawal is pronounced, after hearing the officers of the union, by the authority which granted the concession, which should at once inform the courts mentioned in section 56, of the withdrawal.

59. When societies do not belong to a union, the auditor is appointed by the court (*see* note in section 56); in such case the society may demand the nomination of the auditor. The appointment is made after the chief authority of the district has given his opinion regarding the person proposed; if such authority concurs with the society, such person should be appointed.

60. (Contains rules regarding the fees payable by each society to the auditor.)

61. The directors must allow the auditor the inspection of all the books and papers of the society, its cash, its negotiable paper, and its goods in stock. The committee of supervision should be invited to assist in this audit.

The directors must send, for entry on the register of societies, a certificate by the auditor that the audit has taken place, and must forward the report for discussion and resolution at the next general meeting, at which the committee of supervision must give any explanation on the results found. The auditor appointed by a union must send to the directors of the union a copy of his report.

62. The Chancellor of the Empire is authorized to issue general orders for the drawing up of the audit reports.

Chapter V.—Retirement of Members.

63. Every member is entitled by notice of withdrawal to announce his retirement from a society. Such notice can only be given at the close of a business year, in writing, and at least three months in advance. The articles may fix a period longer than three months, but not exceeding two years.

Any agreement contrary to the above provisions is invalid.

64. When any creditor of a member shall, during six previous months, have failed in his efforts to execute process against the goods of such member, and shall have obtained the attachment and assignment to himself of such sum as would be due to such member upon the liquidation of the society, he may, for the satisfaction of his claim, exercise, in place of such member, the right to claim the retirement of the member.

To the withdrawal notice should be added a certified copy of the debt bond and of the documents relating to the unsuccessful attempt to execute the process.

† 65. If, by the articles, the members of a society are bound to reside within the limits of a specified area [section 8 (*b*)], any member ceasing to reside therein may, by a written notice at the end of the business year, announce his withdrawal from the society. Similarly, the society may notify in writing to such member, that he must retire at the end of the year.

The transfer of domicile should be certified by some official authority.

66. A member may be excluded from a society at the end of a business year upon loss of his civil rights, and also upon his taking part ‡ as member in another society, having a similar object in the same locality.

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* The courts are those which keep the register of societies, and are the same as those which keep the commercial registers, *i.e.*, usually the Commercial courts. These Commercial Courts and Commercial registers are peculiar to Continental Europe. The 'chief authorities' mentioned in this section and in sections 57 and 59 are designated by the Government: in this presidency it would probably be the Collector of the district.

† This section specially relates to the Raiffeisen Societies, which very strictly limit their area of operations usually to a village, and require all their members to reside within those limits. The reasons are fully explained in Vol. I, *q.v.* The official authority attesting a transfer might in India be the village headman and karnam.

‡ The provision is due to the fact that a member pledges his whole property for the engagements of the society. This pledge may amount to nothing if the member joins another society to which also his property is equally pledged, and which may liquidate at any moment. Moreover he may raise loans to the full value of his security in each society and thus possibly defraud one or the other.

The exclusion of a member from a credit and loan society may take place by reason of his joining another similar society, even when that society does not carry on business in the same locality.

The articles may also lay down other reasons for the exclusion of members. The resolution dismissing a member must at once be communicated to him by the directors by registered letter. From the moment this letter is despatched, the member cannot take part in a general meeting or be appointed a director or member of the committee of supervision.

67. The directors must notify a retirement to the court to be entered in the list of members, at least within six weeks before the end of the business year with a written certificate that the notice of withdrawal was given within due time. Where the retirement is due to the action of a creditor (section 64), the notification must be accompanied by the documents mentioned in section 64 (*b*) and a certified copy of the order of attachment and assignment. Similarly in the case of retirement under section 65, the certificate to the court must be accompanied by the written notice of the member, or a copy of that issued by the society, and in case of expulsion, a copy of the resolution. These must be sent within the time mentioned in the preceding paragraph.

68. It is necessary to enter at once on the members' roll the reason for the retirement of the member and the year. Following upon such entry the member quits the society at the end of the year mentioned, but if such entry is only made in a later year, then at the end of that year.

69. On the application of a member, or of a creditor under section 64, the court must at once enter on the list of members the reason for the retirement and the year from which it has effect. If the directorate accepts or is conclusively bound to accept the withdrawal, a note should be made of the fact in sending the notification to the court, in which case membership ceases from the day of the entry of such notification on the list.

70. The court must inform the directorate, the member, and, under section 64, the creditor, of the acceptance or rejection of the proposed retirement. All documents sent to the court with reference to such retirement will be filed by the court.

71. The account of a retiring member with the society is settled according to the situation at the moment of retirement, the balance sheet being taken as the basis of settlement.

The share value due to a retiring member must be paid over within six months, but he has no claim upon the reserve or other property of the society.

Should the society's assets, reserve included, be insufficient to cover its debts, a retiring member will have to pay his quota of the deficit.

72. No demand can be made by a member for the repayment to him of his share value after two years from the date of his retirement.

73. If the society is dissolved within six months from the date of a member's retirement, such retirement is considered as null and void.*

74. A member may, at any time by written agreement, transfer his share to another person and quit the society without settlement of accounts, provided that the transferee becomes a member in his place; if he is already a member, his interest in the society must, with the new addition, not exceed the prescribed share maximum.† But the articles of a society may prescribe other conditions, or forbid any such transfers.

The directors must communicate such transfers at once to the court (section 10), and, if the transferee is already a member, must also send a certificate that the transferee's pecuniary interest does not exceed the share maximum.

The transfer should be effected in the list of members by the transferring member, from which date the transfer has effect. The conditions of sections 15, 69 and 70 are applicable.

If the society fails within six months from the date of transfer, and the transferee is unable to make good any supplementary payments, the transferring member will have to supply such deficit with regard to such supplementary payments as he would have been called upon, as member, to make.

75. A deceased member is considered to have quitted the society at the close of the business year in which he died. Up to that time the heir of the deceased takes upon him the vacated membership. In the case of several heirs, the right of vote is exercised by a power of attorney.

The directors must, without delay, send notice of the decease of a member to the court (section 10) for entry on the list of members.

The conditions of sections 68, 69 and 73 are applicable.

Chapter VI.—Dissolution and Liquidation.‡

76. The society may be dissolved at any time by a resolution of the general meeting, such resolution being passed by a majority of three-fourths of those present. The articles of a society may fix further conditions in addition to that of the three-fourths majority.

Such dissolution must at once be notified (to the court, section 10) for entry on the register of societies.

77. In the case of a terminating society, its dissolution takes effect at the end of the term.

Section 76, paragraph 2 applies in this case also.

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* This provision is evidently intended to prevent members from ruining a society by withdrawal or from evading their share of responsibility for the condition of a society.

† *I.e.*, the maximum which may be held by any one member, *see* sections 128 and 132.

‡ For proceedings in case of bankruptcy, *see* Chapter VII.

78. In case the number of members falls below seven, the court (section 10) must, on the request of the society, or if such request be not made within six months, then by executive order after the directors have been heard, pronounce the dissolution of the society.

The order must be at once communicated to the society.

A regular suit to annul such order lies at once. The dissolution will have effect from the date of confirmation of the order.

79. When a society is guilty of illegal acts or omissions which endanger the common weal, or when it follows objects other than those mentioned in section 1, it may be dissolved unless a formal demand for indemnity has been made. (Prescribes the method and authorities for procuring dissolution in such cases.)

The authority pronouncing dissolution must report the same to the court (section 10).

80. The dissolution of the society must be entered without delay by the court on its register of societies.

It must, moreover, be published by the directors in three separate issues of the journals in which the society publishes its notices. Such publication must also invite creditors to send in their claims.

81. Liquidation is effected by the directors if the articles or a special resolution of a general meeting do not entrust it to other persons. There must be at least two liquidators. If so requested either by the committee of supervision or by at least one-tenth of the members, the court (section 10) may nominate the liquidators.

The court may also * suspend liquidators under the same conditions as those on which it appoints them. Liquidators not appointed by the court may be suspended by the general meeting before the expiry of the period for which they have been appointed.

82. The appointment of liquidators must at once be notified for entry on the register of societies, and every change of liquidators as well as the expiry of any of their powers.

Liquidators must, at the same time, give in or duly send in their signatures to the court.

A copy of the papers relating to the appointment of liquidators must accompany the notification and be filed in the court.

83. The liquidators must signify their consent in due form, and will sign for the society. All liquidators should join in the above declaration and signature unless it is otherwise arranged, but at least two should be appointed for the purpose.

The signatures must add the name of the society to indicate that from that date the society is in liquidation.

84. The provisions of section 29 are applicable to the case of liquidators as regards third parties.

85. Till the close of the liquidation, notwithstanding the dissolution of the society, the provisions of the Chapters II and III of the present law are applicable so far as concerns the legal relations of the society with its members, so long as no new legal situation shall arise from the provisions of the present chapter and from the nature of the liquidation.

The legal position held by the society at the time of its dissolution subsists until the complete partition of its assets.

86. The liquidators should close current operations, complete the engagements of the society, call in its debts, and turn all assets into cash. They will represent the society both at law and in business. They may make fresh engagements for the purpose of winding up pending operations.

87. Liquidators have the rights and duties of directors as entered in sections 26, 27, 31 (1), 32, 42 to 45 and 46 (2), and as such are subject to the inspection of the committee of supervision. They must get out a balance sheet immediately after the commencement of liquidation and every year thereafter. The first balance sheet must be published and communicated for entry on the register of societies.

The sale of immovables can only be effected by liquidators in public auction, unless the articles or a resolution of a general meeting decide otherwise.

88. The division of the assets between the members cannot take place till the debts are paid off and quittance given, nor before the expiry of one year from the date when the notice to creditors shall have been published for the third time in journals [section 80 (2)].

The amount of the uncollected debts, as well as that of debts postponed or in dispute, must be set aside (before the division of the assets), as well as that of pending obligations. Liquidators acting contrary to the present provisions are responsible individually and collectively not only to the society, but to the creditors for any resulting damage. The same responsibility attaches to members of the committee of supervision when such infractions have taken place with their knowledge and without objection from them. Nor is such responsibility towards creditors removed by the fact that the infraction is the result of the resolution of a general meeting.

89. (Prescribes the mode of dividing the assets among the members with liberty to enter other methods in the articles).

90. After the close of the liquidation the books and papers of the society are to be given in charge for ten years to one of the long-standing members or to an outsider. Such person is appointed by the court (section 10), in case the articles or a resolution of the general meeting do not provide for this. The court may authorize members and their legal successors as well as the creditors of the society to examine their books and papers.

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* This is general: the court may suspend *any* liquidator upon reference by the committee of supervision or one-tenth of the members.

Chapter VII.—Bankruptcy—Responsibility of Members.

91. Bankruptcy is declared in case of suspension of payment as well as in case of an excess of liabilities (over assets).

After a society is dissolved, it may be declared bankrupt so long as the division of assets has not taken place.

92. As soon as payment is suspended, the directors must propose * the opening of proceedings in bankruptcy. This must also take place when, after a society is dissolved, it is found by the balance sheet that the debts are in excess of the assets.

The directors are responsible to the society as laid down in section 32 for any payments made by them after such debt.

But no demand can be made upon them after the lapse of five years.

93. Not only the creditors, but any one of the directors is authorized to propose the opening of proceedings in bankruptcy.

If all the directors do not join in the proposal, such proposal cannot be accepted unless the facts necessary by section 91 are duly proved. The court should hear the other directors according to section 97 (2) and (3) of the Law of Bankruptcy. The proposal cannot be rejected on the ground that the assets do not suffice to pay the expenses of proceedings.

94. The society is *ipso facto* dissolved by the opening of proceedings.

95. The opening of proceedings must be at once entered on the register of societies, but this entry is not published.

96. On the opening of proceedings the court must nominate a committee of the creditors. A meeting of the creditors must then decide whether it shall accept the nominees or demand others. The provisions of section 79 of the Law of Bankruptcy are applicable.

97. A general meeting must be summoned (sections 42 and 44) at once, in order to decide whether the directors and members of the committee of supervision then in office are to be retained or others appointed.

98. If the scheduled creditors are not satisfied by the final division (section 149, Law of Bankruptcy) of the assets available at the opening of proceedings, the members must furnish supplementary payments to be credited to the funds in bankruptcy.

Unless the articles fix another method for such payments, they must be paid in by contributions *per capita*.

Such payments as cannot be collected from particular members are sub-divided among the rest.

Any payments made in excess of the sums due as above must be returned after all creditors have been duly satisfied.

Any member may put in a counter-claim against such supplementary payments, if he has a claim, as creditor in bankruptcy, upon such payments.

99. The trustee in bankruptcy must, as soon as the balance sheet has been deposited in court (Law of Bankruptcy, section 114), calculate the amount requisite as supplementary payments to cover the deficit.

In the list drawn up for such payments, all members must be entered by name and the demand divided among them. The amount to be contributed must, however, be so calculated that, when allowance is made for the inability of some members to pay, the net proceeds shall cover the demand.

The account must be sent to the Bankruptcy Court with a request to declare it binding. If the register of societies is not kept by the Bankruptcy Court, a certified copy of the articles and of the list of members must be added.

100. For its decision regarding the account, the court will fix a date not more than two weeks in advance. This date must be officially published, and a special summons must be sent to each member entered in the account.

The account itself must be deposited in court at least three days before such date for the inspection of those concerned. This fact should be mentioned in the published notice and in the summons.

101. During this period the directors and the committee of supervision as well as the trustee in bankruptcy and the committee of creditors should be heard, as also any other persons interested if they have any objections to urge.

The court will then give its decision, modify the account where necessary or order any modification, and declare it binding. The decision must be published at once or within a week, and, with the account, must be deposited, for the inspection of those concerned, in the court. No appeal lies against this decision.

102. After the account has been confirmed, the trustee must at once collect the contributions from the members. The execution of the demand against a member is carried out according to the Law of Civil Procedure by service of a public copy of the decision with an extract from the account.

103. The collections must be deposited in such place as may be indicated by the committee of creditors (Law of Bankruptcy, section 120).

104. Every member is authorized to bring a suit against the account after its confirmation. The suit must be filed against the trustee in bankruptcy. It only lies if filed within one month from the date of publication of the decision, and if the plaintiff has declared his objection at the hearing (section 100), or if he has been prevented from so declaring it by no fault of his own. Judgment in such suit has the force of law, and affects all members who are bound to make the above contributions.

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* *See* section 142 for the penalty for neglect to make this proposal.

105. The suit must be filed only in the court which confirmed the account. The hearing cannot take place till after the above period of one month has elapsed. Several suits against the account may be heard and decided together.

106. Should the collections on the account prove insufficient by reason of the inability of any members to contribute their quota, or should the account require modification either by reason of a judgment or otherwise, the trustee must frame a revised account, for which the provisions of sections 99 to 105 are applicable.

If necessary the account may be framed *de novo*.

107. As soon as the final distribution is begun (Law of Bankruptcy, section 149), the trustee must calculate how much, under section 98, members may have to pay as supplementary contributions in addition to or in modification of the entries in the account as compared with the actual contributions.

Such account is subject to the provisions of sections 99 to 102, 104 and 106, but in such wise as not to include contributions from those whose inability to contribute has already been proved.

108. (Omitted.)

109. (Omitted.)

110. The directors are bound to assist the trustee in the duties imposed on him by sections 99 (1), 102 (1), 106 and 107.

111. Such provisions of the present chapter as apply to directors apply also to liquidators.

Chapter VIII.—Special Provisions.

(A) FOR SOCIETIES OF UNLIMITED LIABILITY.

112. In societies of unlimited liability, a member can only hold one share.*

113. The agreement signed at entry by the member (section 15) must expressly state that the member is individually responsible in all his property for the engagements of the society, both towards the society and directly † towards its creditors so far as the law provides.

114. If the articles forbid the distribution of profits (section 20), sections 63 to 75 are to be read in such wise that, as regards the retirement of a member, the "quarter" shall take the place of the "business year," that the notice of retirement must be given in at least six weeks before the end of the quarter, and that the transmission of papers to the court by the directors (section 67) must take place at least three weeks before the end of the same quarter.

In case of withdrawal a settlement must be made. The number of members withdrawing in a quarter must be published.

115. Should it be found that the society's assets, including the reserve and the outstandings, do not cover the debts, the directors are bound to call a general meeting to consider whether the society should be dissolved.

Should dissolution be decided upon, a decision on the point ‡ mentioned in section 97 should at the same time be taken.

116. Should a society become bankrupt, not only is the society, but all the members are responsible individually and collectively in all their property, towards the creditors, for any deficiency found at the final distribution (Law of Bankruptcy, section 149) in regard to duly scheduled debts.

After the expiry of the three months, dating from the confirmation of the account of supplementary payments, the creditors may, if their dues have not been satisfied, take steps against the members individually, nor can such members oppose the claim.

Nor can debts duly scheduled, which have not been expressly objected to by the directors or liquidators during the period of examination of debts, be contested by the members against whom the creditors take steps as in paragraph 2.§

A regular judgment in a suit heard during the process of examination of debts, in the matter of a debt contested by the directors or liquidators, is binding on all the members.

But a debt under objection is not binding upon members till it has been finally admitted on the schedule.

117. The right of action of creditors against individual members ceases at the expiry of two years from the period mentioned in section 116 (*b*), if no shorter period of limitation is prescribed by any law according to the nature of the debt.

Such period of limitation in favour of the member is suspended during any legal proceedings taken by or against the society, but not by any legal proceedings taken by or against another member.

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* In these co-operative societies, the share is primarily a means (*a*) of compelling thrift, (*b*) of providing the guarantee of the member which, in these unlimited societies, extends to the whole of his property and of thereby obtaining credit: it is not intended, except secondarily, as a means of furnishing funds directly, still less as an investment by the members as is the case in an ordinary joint stock company; hence the present limitation; the holding of a single share renders the holder responsible in all his property, and the holding of other shares would therefore not increase the guarantee offered by him, while it might give him an undue preponderance in the society. The law has no retrospective effect (section 163) in this matter.

† The word "directly" is important here, as it signifies that the creditors have the power of *direct* action against individual members (section 116), and not merely against the society; *see* note on section 2 (v), and on section 121 below.

‡ The retention or otherwise of the directors and members of the committee of supervision then in office.

§ Members are bound by the final list of admitted debts, and cannot contest such debts anew when the creditors proceed against them individually.

Liquidation applies also to minors, * or wards under guardianship, as also to persons who by law have the rights of minors, nor can they obtain a renewal of their expired claims. But they have, in such case, the right of action against their guardians.

118. If members who have been proceeded against under section 116 satisfy the dues of the creditors, they become invested with the rights of such creditors against the society.

119. The provisions of sections 116 to 118 are applicable to such members as have quitted a society (under sections 68 and 74) during the two years immediately preceding the beginning of proceedings in bankruptcy, and who are not otherwise, under section 73, responsible for the society's engagements up to the moment of their withdrawal; but they are applicable in such wise that the claims of creditors against them cannot be levied till the expiry of six months from the date at which the account of supplementary payments (section 107) shall have been confirmed.

In the case of a deceased member whose retirement shall have been registered at the date fixed by section 75 (1), the claim extends to engagements contracted by the society up to the date of such registration unless the heir proves that, at the date of the engagement, the creditor was aware of the death of the member.

(B) SOCIETIES OF LIABILITY UNLIMITED AS REGARDS SUPPLEMENTARY PAYMENTS.

120. The provisions of sections 112 and 115 apply to these societies.

121. The agreement signed by a member (section 15) must expressly state that the member is individually responsible, in the whole of his property, towards the society,† for such supplementary payments as are legally due to satisfy the society's creditors.

122. If, when proceedings in bankruptcy have been opened, scheduled [98 (1)] creditors have not been satisfied within three months after the confirmation of the account of supplementary payments (107), such contributions as may be necessary must be levied as under section 98 from members who have retired during the eighteen months preceding the opening of proceedings in bankruptcy, and who have not yet been subjected, under the operations of section 73 or 74 (1) to supplementary contributions.

123. The trustee must at once frame an account showing the contributions due by retired members.

Such account must be entered up by name, and the contributions must be apportioned amongst them all, unless the inability of particular individuals is known.

The provisions of sections 99 (3), 100 to 102, 104 to 106 and 108 are applicable.

124. The provisions of sections 122 and 123 do not affect the recovery of supplementary contributions rom members remaining in the society.

Should the contributions made by such members satisfy the scheduled [section 98 (1)] creditors, the contributions levied from retired members must be returned to them.

(C) LIMITED SOCIETIES.

125. In limited ‡ societies, the sum for which each member is responsible must not be less than his share value. The amount of the responsibility must be fixed by the articles at the institution of the society. The arrangement and any modification of it must be duly published (sections 12 and 16).

126. For any augmentation of the limitation value, a majority of three-fourths of the members present at a general meeting is necessary. The articles may also establish other conditions.

127. A reduction of the limitation value can only be effected under the conditions applicable to a division of the capital in case of a dissolution [sections 80 (2) and 88 (1) and (3)].

Notice of the resolution for reduction will not be made for entry on the register of societies before the end of the year mentioned in section 88 (1). With the notice must be sent the published copies of the resolution. At the same time the directors must submit a written certificate that the creditors who have not consented to the reduction have been paid up or have obtained due security.

128. The articles may authorize the holding of more than one share by a member, and must fix the maximum number which may be so held.

This condition or any modification of it must be duly published (sections 12 and 16).

129. The responsibility of a member holding more than one share increases in exact proportion to the shares he holds.

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* That is, where minors, &c., are creditors, limitation equally applies to them, and they cannot subsequently plead minority, &c., in view to a renewal of their claim after the limitation period is over.

† The difference between the societies A and B is that in the latter the creditor has no power of proceeding *directly* against a member as he has under section 116. A member is not responsible directly to the creditors as in the A societies (section 113), but only to the society, which is collectively responsible to the creditors, and these latter can only proceed against members through the trustee in bankruptcy who satisfies their dues by levying supplementary contributions. Hence, in section 121, the words "directly towards the creditors" find no place.

It will be seen that both societies are "unlimited" and that they differ not in the extent of the liability of members, but in the procedure to be taken against them. It is undoubtedly a relief to members that they shall not be liable to individual suit for the whole of a debt (leaving them to recover from the society afterwards), but only to their *quota* for each debt or mass of debts (*see* note on section 2 (*v*), (*supra*).

‡ The word "limited" as used in Europe frequently means "limited to a particular sum or value," not necessarily that of the mere shares held by a member as is usually the practice in England and India. It is common, for instance, for the members to be held responsible not only for the value of their shares, but for a similar additional value, or for a half extra, or two or three times such value.

130. A society must not permit a member to take a second * share till he has fully paid up his first share, and similarly for each successive share.

131. A member desirous of subscribing for a new share must give in a signed declaration. This must be sent by the directors to the court (section 10) for entry on the list of members as soon as the application for a new share has been accepted. The directors must, at the same time, certify that the member has fully paid up his previous shares.

A member's property in a new share begins to have effect after the entry is registered according to the preceding clauses.

The conditions of section 5 are in other matters applicable.

132. A transfer of a member's share value to another is only valid if, at the time of transfer, the total share value held by the transferee, together with the amount transferred, does not exceed the maximum permissible. The directors must therefore send to the court (section 10) the certificate required by section 74. In other matters the provisions of section 131 apply.

133. With the balance sheet of each business year should be published, besides the matters recited in section 31 with regard to the number of members, a statement showing the total amount by which in that year the liabilities have increased or diminished, and the total amount for which the members are jointly responsible at the close of the year.

134. Proceedings in bankruptcy are called for not merely in case of inability to make payments, but in case the debts exceed the assets, should such excess pass one-fourth of the total amount for which the members are responsible. The directors are bound to propose proceedings in bankruptcy when such excess is discovered either by the annual balance sheet or by a balance sheet drawn up during the year. The provisions of section 92 (2) and (3) and section 93 are applicable.

135. Members cannot individually be followed for any sum in excess of that for which they are responsible, whether for any supplementary contributions or by the creditors of the bankrupt society. For other matters the provisions of sections 116 to 119 relative to claims by creditors are applicable.

136. Irrespective of the provisions of section 88, the creditors of a society, if their claims have not been satisfied, may claim compensation from the directors, from the committee of supervision or from the liquidators, if profits or capital shall have been divided contrary to the provisions of sections 19 and 22.

The same is permissible if, after the date on which it is obligatory to propose the opening of proceedings in bankruptcy, money is paid out by way of repayment.

The liability to compensation is not, as regards the creditors, removed by reason of the transaction having been based on a resolution of a general meeting.

(D) TRANSFORMATION OF SOCIETIES.

137. A society of unlimited liability can transform itself into a society of liability unlimited as regards supplementary contributions, only by observing the conditions applicable to the partition of a society's capital in a case of dissolution [sections 80 (2), 88 (1) to (3)].

The same procedure is necessary when societies of unlimited liability of either kind are transformed into limited societies.

The provisions of section 127 (2) are applicable.

138. For the transformation of a society of unlimited liability as regards supplementary contributions, into an ordinary unlimited society, or of a limited society into either class of unlimited society, a majority of three-fourths of the members present at a general meeting is necessary. The articles may also require further conditions.

139. The transformation under sections 137 and 138 is binding on members who have left the society before the registration of the decision in register of societies.

In the case of the transformation of a society unlimited as regards supplementary contributions, the abovementioned members cannot be called upon for the debts of the society if their retirement took place eighteen months before registration of the transformation. In case of the transformation of a limited society, they can only be followed for the sum for which they were responsible when they retired.

CHAPTER IX.—PENALTIES.

140. The directors, the members of the committee of supervision, and the liquidators, are punishable with imprisonment and with fine which may extend to 3,000 marks (Rs. 1,500) if they wilfully act † against the interests of the society.

They are, at the same time, liable to lose their civil rights.

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* It must be remembered that the shares in a co-operative society are not investments of capital by a mass of subscribers on whom alike general calls are occasionally made, but are gradually developing shares in a partnership, and are intended to encourage thrift by steady, continuous saving, as well as to produce responsibility. A share is fixed, say, at Rs. 50, and a member—in the Schulze-Delitzsch Societies for example—is obliged to pay this up by continuous, regular, and punctual periodical payments, *e.g.*, 1 rupee per month till all is paid up. Hence, in order that a man may not rashly undertake more than he can pay, or a burden of responsibility for which he is not fitted, he is compelled to show his thrift and prudence by completing each share before taking up another. It must not be forgotten that the shares are not a large proportion of the working capital.

† This section is as draconic as it is vague. No maximum term of imprisonment is stated while the phrase "act contrary to the interests of the society" is extraordinarily lax. Numerous acts may be contrary to the interest of a society, but are yet hardly criminal, except under this stringent provision. However, there is the law, and it sufficiently shows with what strictness the German legislature intends to control by law the working of these societies, and to safeguard the interests of the poor and often ignorant people who form the members of these co-operative societies. In the history of the Madras Nidhis there have been hundreds of cases which would readily fall under this law, though the parties would altogether escape under the Penal Code.

141. The directors, members of the committee of supervision, and the liquidators are liable to imprisonment for one year and to a fine which may extend to 3,000 marks, if they shall have knowingly made false declarations in the notices, advices, and certificates sent to the court (section 10), or if they knowingly make incorrect allegations regarding the situation of the society either in their statements relative to the financial position of the society, to its members, or to the sums for which they are liable, or in their proposals made to the general meeting.

They may, at the same time, be deprived of their civil rights.

In case of extenuating circumstances, a sentence of fine only may be pronounced.

142. (*a*) Directors, members of the committee of supervision and liquidators, when the society has been left more than three months without a committee of supervision, or if the committee of supervision does not contain the number of members necessary for passing resolutions, (*b*) directors and liquidators who, contrary to sections 92, 111 and 134, neglect to propose the opening of proceedings in bankruptcy, are liable to a fine of 600 marks or to three months' imprisonment or to both.

No one is liable to the above penalty if he can prove that the neglect was not due to him.

143. Directors are liable to a fine of 600 marks, if their operations are directed to objects other than those indicated in section 1, or if, in general meetings, they allow or do not prevent the discussion of propositions concerning public matters, the discussion of which falls within the law regarding the right of assembly and association.* The penalty is not leviable from any one who can prove that he is not guilty of such fault.

145. Any one who grants or makes any promise of special advantages to any person, if he will vote in a particular manner at a general meeting, is punishable with a fine which may extend to 3,000 marks or to imprisonment which may extend to one year.

Chapter X.—Miscellaneous.

146. (Treats of the jurisdiction of courts.)

147. (Omitted.)

148. The notifications for entry on the register of societies must be made by all the directors or all the liquidators personally, or on an authenticated form.

Notices and documents sent according to sections 16, 28, 31 (2), 49 (4), 61 (2), 82 and 83 (2) must similarly be entered on the register of societies for each branch.

The results contemplated in sections 13, 16 (4), 29, 84, and 139 come into force upon the entry in the register of societies at the principal place of office.

149. The registration of a new member, of a retirement, of the exclusion, or decrease of a member, the entry of the acquirement of new shares in the list of members, must be communicated by the court (section 10) to the court having jurisdiction over the head-quarters of each branch for the due correction of the list there maintained.

The registration of the dissolution of a society as well as the opening of proceedings in bankruptcy must, at the same time, be entered on the register of societies for each branch.

150. (Omitted.)

151. (Omitted.)

152. The directors must be compelled by the court (section 10) to observe the provisions of sections 8 (2), 14, 16 (3), 28, 30, 59 (2), 61, 76 (2), 127 (2) and 137 (3) under summary penalties which may extend from 20 to 600 marks. In the same way the directors and liquidators must be compelled to observe the provisions of sections 31 (2), 45, 46 (2), 49 (3) and (4), 82, 83 (2), 87 (1) and 148 (2).

The procedure to be observed is that prescribed for the enforcement of notifications ordered by the Code of Commerce.

153. (Repeals previous laws.)

154. Societies registered under the law of 4th July 1868 are placed under the present law.

155. A society must, under penalties to be imposed by the court (sections 10 and 14), add the words "registered society of unlimited (limited) liability" to the designation of the society.

156. † So long as the provisions of section 7 (4), relative to the formation of a reserve, shall not have been entered in the articles of a society, such society must, from the beginning of the business year immediately following the coming into force of this law, allot at least one-tenth of the annual profits to the formation of a reserve.

Sections 157 to 170. (Are of temporary nature and relate to the effect on existing societies of the new law.)

171. The conditions necessary for the application of the provisions of the law relative to the register of societies, and to the communications to be entered therein will be laid down by the Federal Council.

When the State is a confederation, the central authority of such confederation will notify for each confederated State what is the authority intended by the words "State authorities" in section 45 and "Chief Controlling authority" (sections 56, 57, 59 and 79 ‡).

172. The present law comes into force from 1st October 1889.

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* This section is obviously intended to prevent the societies from becoming mere political clubs. The two great difficulties in the way of these societies in Europe are said to be politics and high dividends.

† A very important section practically making a reserve compulsory by ordering a large annual allotment if the articles do not prescribe an allotment. It would be well to make it a first charge on gross profits, and a *minimum* proportion should be prescribed by the articles.

‡ *See* these sections which show that the Government itself keeps a watchful eye over these societies, in addition to the close supervision to be exercised by the court (section 10).

MODEL ARTICLES OF THE SCHULZE-DELITZSCH CREDIT SOCIETIES, CO-OPERATIVE AND UNLIMITED.

[Revised according to the law of 1st May 1889.]

NAME, PLACE OF BUSINESS, AND OBJECTS OF THE SOCIETY.

1. The society shall be called the Schulze-Delitzsch Credit Society unlimited and registered, and shall be located at ————————. The object of the society is to provide its members with the funds necessary for trade and agriculture by means of co-operative banking operations.

WORKING CAPITAL.

2. The working capital comprises—

(1) The own capital of the society formed of the entrance fees, of the subscribed shares, and of such share of the annual profits as may be credited to capital and reserve.
(2) Deposits and other extraneous funds.

ORGANIZATION AND MANAGEMENT.

3. All members share in the work of the society through—

(1) The board of directors (office-bearers).
(2) The committee of supervision.
(3) The general meeting.

THE DIRECTORS (OFFICE-BEARERS).

4. The directorate consists of—

The managing director.
The cashier.
The book-keeper.

These are elected by the general meeting on the nomination of the committee of supervision: the election shall be determined by a majority of votes, which shall be in writing. The term of office shall not exceed three years, and arrangements shall be made to prevent the simultaneous retirement of several members together.

If a candidate does not obtain a clear majority, the committee of supervision shall submit new proposals.

Office-bearers are re-eligible upon expiry of their term of office.

Every office-bearer must be a member.

5. Elections and re-elections of directors must be communicated to the Court* with a copy of the minutes relating to such elections; the elected directors must also send a specimen of their signatures.

6. The directors represent the society both in Court and otherwise and have the powers granted by section 24 and following sections of the law. They sign for the society adding their signatures to the name of the society. The signature of two directors is necessary.

7. The directors have full rights of management save as restricted by these articles or by any specific resolutions or by the necessity for the concurrence of the committee of supervision or of the general meeting.

8. Directors are responsible personally and jointly if they exceed their rights as herein contained and for any loss caused to the society by any neglect of the duties demanded of good men of business: they are specially responsible if they have distributed profits or assets contrary to the provisions of the law.†

9. Directors must keep the affairs of the society in complete order. Especially must they look after the upkeep of the accounts and their abstracts, the compilation of the annual balance sheet, the maintenance of an exact list of members, the custody of the cash, funds, documents and books of the society. They must publish, within six months of the close of the business year, the number of members at the beginning of the year, the number admitted and withdrawn during the year, and the number belonging to the society at the close of the year, and this list must be entered on the register of societies.* All declarations of membership signed by new members, and the notices and declarations required of withdrawing members, in conformity with the law, must be duly communicated to the Court for entry on the register of societies. The directors are also bound to see that the affairs of the society are submitted at least once in every two years to the auditors appointed by the audit authorities, ‡ and that the auditor has full access to every document and account and verifies the cash balance and the securities in hand, and certifies on the registers of societies that he has duly effected his audit.

Should it happen that the assets are insufficient to meet the liabilities, the directors are bound to call a general meeting to decide whether the society should be wound up.

10. Every business matter must be decided by the directors assembled in actual meeting and by a majority of votes; no director can take part in the discussion on any matter in which he is personally interested.

Every resolution is to be duly entered in a minute book and signed by each director. During the hours of business, two directors must always be present at the office, and no business is to be transacted

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* *See* section 10 of the law. † *See* sections 19 and 22 of the law. ‡ *See* sections 51 to 62 of the law.

except at such hours. The directors must, at the close of office hours, verify the cash with the cash-book and see to the due securing of all books and papers.

11. Directors must assist the committee of supervision with their opinion when called for, and when in joint sitting (section 39) with the committee, they have the right of vote. In joint sittings the chairman of the committee of supervision or his representative presides.

12. At every ordinary (weekly) sitting of the committee of supervision, the directors must present a statement showing receipts and disbursements of the past week, cash in hand, debts past due and not paid upon, and loans made during the week.

Directors must also transmit to the committee of supervision a similar list at the end of each month, and publish the same quarterly in a public journal, and at the end of each year must prepare the balance sheet, submit it to the committee of supervision and give account of their management to the general meeting.

13. Directors must take special care to see that all prescriptions of the law are obeyed and the necessary notices sent to the Court, &c.; in case of neglect any fines will fall on them personally and not on the society.

14. The specific duties of directors are determined by the directors and the committee of supervision jointly, with the subsequent approval of the general meeting.

15. The managing director supervises the cashier and book-keeper, verifies and safeguards the cash, the securities and the books of the society, conducts the correspondence, enters up the directors' resolutions, and must bring all irregularities or errors, &c., to the notice of the committee of supervision.

16. The cashier is directly responsible for all receipts, keeps the books, prepares all statements and works with the book-keeper in preparing the periodical returns.

17. (Duties of the book-keeper.)

18. The committee of supervision fills up temporarily any permanent vacancy in the directorate and notifies the same to the Court with a copy of the resolution.

19. (Regarding temporary vacancies.)

20. The entire directorate or any member thereof may at any time be removed by a vote of the general meeting, and have no right of indemnification other than that which may have been agreed upon in their contract with the society.

21. The committee of supervision may suspend any or all of the directors temporarily, pending final decision of a general meeting which must be called as soon as possible.

22. Any such suspension or removal must be instantly notified to the Court, together with a copy of the resolution for entry in the register of societies. The directors continuing in office are responsible for such communication.

23. Directors shall receive a salary consisting of a fixed annual payment and of a percentage on profits. Such salary shall be proportionate to their several duties and settled by the general meeting.

Directors must give security proportionate to their respective duties as determined by the general meeting.

Committee of Supervision.

24. The committee of supervision shall be elected by the general meeting by simple majority (detailed rules for election, with resort to the lot in case of difficulty). They must be members of the society.

25. One-third quit office each year, but are re-eligible; retiring members are determined by lot in the first two years, subsequently by seniority.

26. Vacancies before due date are filled at the next general meeting.

27. A minute relating to the first election of the committee must accompany the copy of the articles sent to the Court for entry in the register of societies.

28. The committee elects its chairman and secretary with deputies for temporary vacancies. Resolutions are passed by ordinary majority. In case of equal votes, the motion is considered as lost; but in such case when the matter is connected with an election, it is decided by lot. A majority of the members is necessary for a quorum.

29. The committee must hold its meetings every week in the society's office. Directors when present at such meetings can only vote on matters which, by the present articles, are subject to disposal by the directors and committee jointly: in other cases they can merely give their opinion.

30. Extraordinary meetings are called by the chairman, who must notify the object of such meeting. He is bound to call such meeting forthwith when the directors or one-third of the committee demand such meeting, accompanying the demand by a written statement of the matter for discussion.

31. The minutes of a meeting must be signed by all members of the committee and of the directorate who may be present.

32. Members of committee may not take part in a meeting at which matters in which they are personally interested are discussed.

33. The general meeting may at any time remove all or any of the committee members from duty. For such resolution there must be a three-quarter majority of those present. The motion for such removal shall ordinarily be made only by the directors and committee (jointly), but may also be made by private members, provided that it is made in writing with a statement of reasons and supported by one-tenth of the members.

34. The committee supervises the conduct of business by the directors in every branch, and is entitled for that purpose to inform itself at any time of the conduct of business. It may at any

moment require from the directors a report as to the society's business; it may examine and verify the books, securities, cash and valuables of the society. It may temporarily suspend any director pending decision of a general meeting to be summoned with all speed, and may make provision for temporarily carrying on business.

The committee must assist at the regular audit, and at the next general meeting must submit its own report on the results.

35. The committee must examine the monthly and quarterly statements in such wise as to obtain cognizance of the position of the society, the annual statement and balance sheet and the proposals for the division of profits, and must report thereon to the general meeting before the balance sheet is passed. It must also summon a general meeting when necessary.

36. The procedure to be observed by the committee is settled by the directors and committee jointly and approved by the general meeting.

Members must act as good men of business, and those who neglect their duties will be held personally liable, especially in the matter of dividends which may have been issued contrary to law, unless they shall have protested against such issue.

37. The committee represents the society in contracts made with and in proceedings against the directors.

38. Directors must act with the committee in the following matters:—

(1) In the grant or renewal of credit of every kind.*

(2) In opening and closing business relations with any bank or financial institution in the matter of obtaining credit in such banks.

(3) In the disposal of temporary surplus capital.

(4) In the investment of the reserve.

(5) In the acceptance of funds not expressly provided for in the law (deposits and savings).

39. The following matters must be decided by the directors and the committee in joint † session:—

(1) The appointment, dismissal and remuneration of employés, the nomination and regulation of agents, and the prosecution of employés and agents if necessary.

(2) The concluding of leases and the sale of movables.

(3) The drawing up of statements to be submitted to the general meeting.

(4) The fixing of the rates of interest and commission upon loans granted; the rates to be published for the information of members.

(5) The admission of new members and proposals for the expulsion of members to be decided by the general meeting.

(6) The temporary suspension of employés appointed and dismissed by the general meeting.

(7) The amount of loans to be contracted by the society, the rates of interest payable thereon, &c.; also the interest to be allowed on accounts current.

(8) All matters of general importance connected with savings deposits to be eventually submitted to the general meeting.

(9) The extension or limitation of business in general or of certain classes

(10) The representation of the society at the congresses and meetings of the general and sub-unions.

(11) The hours of business.

(12) The subscription for journals, &c.

(13) The recovery of arrears from defaulters.

The General Meeting.

40. The rights of members to take part in the affairs of the society are exercised in the general meeting. Each member has one vote, which cannot be passed on to a third party.

(*N.B.*—When corporations or other associations are members, they are represented by a single proxy.)

41. The committee of supervision summons the general meeting or, in default, the directorate (usually by notice in a newspaper).

42. An abstract of the subjects for discussion must be published at least three days before the meeting.

43. Ordinary meetings are held—

(1) annually for the disposal of the balance sheet, the declaration of a dividend, the acquittance to be given to directors, &c.;

(2) quarterly for a review of the society's business, for the receipt of complaints, and for the discussion of matters of interest; elections to the directorate and committee of supervision take place in the last quarterly meeting of the year. The balance sheet with statement of profit and loss must be hung up in the office for perusal by members at least eight days before the annual meeting at which it is to be discussed and members must be notified that it is open to their inspection. Every member is entitled to a copy of the balance sheet upon demand and upon payment.

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* In societies where the directors are permitted to grant credit without the consent of the committee of supervision, such right should be limited by the preparation of a list (Italian "castelletto") showing the credit which may be granted to each individual. In that case 38 (1) should be expunged, and in section 39, the following should be inserted:—

"The preparation of a list showing the maximum credit which may be granted to individual members: this list must be examined at least once in every month and revised according to circumstances."

† *See* foot-note to section 38.

44. Special general meetings may be convoked at any time. The committee of supervision is bound to summon such meeting upon receipt of a demand in writing, with a statement of reasons, signed by the directorate or by one-tenth of the members.

If neither the committee of supervision nor the directorate comply with such request, members may apply to the Court, which will authorize the calling of a meeting with the usual formalities.

45. The list of business is settled by the committee of supervision for ordinary meetings. Subjects proposed by one-tenth of the members shall be entered therein if forwarded in writing in sufficient time for due publication; application may be made to the Court if the demand is not attended to.

46. The chairman of the committee of supervision is the chairman of the general meeting; if it has been convoked by members, such members elect a chairman. But the general meeting by regular resolution shall always be at liberty to choose any member as chairman. The chairman appoints the secretary for the meeting.

47. Ordinary voting is by show of hands: in case of doubt the votes shall be counted by two tellers, and this procedure is compulsory should ten members demand it. It is only for elections and for the expulsion of a member that recourse shall be had to written votes.

48. The decisions of a duly constituted meeting bind the society.

A three-quarter majority is required—

(1) for any modification of or addition to the articles,
(2) for changing the objects of business,
(3) for increasing the share values,
(4) for the re-election of members of the committee of supervision,
(5) for the liquidation of the society.

Moreover it is necessary for the validity of items (1), (2) and (5) that at least one-third of all members shall be present at the meeting. If such proportion is not present a second meeting is to be called after at least eight days and within four weeks; the decisions of such meeting shall be valid without regard to the number of members present.

49. Minutes of every meeting are to be duly drawn up containing the points discussed, the resolutions thereon, and the result of votes: these are to be entered in a permanent register and signed on each occasion by the chairman, by every director and member of the committee of supervision present, by the secretary of the meeting, and by at least three other members. The committee of supervision is entrusted with the custody of the register and of the notices calling the meetings.

50. The following, in addition to other subjects elsewhere mentioned, must be submitted to the decision of a general meeting :—

(1) Alteration of and addition to the articles; change of the objects of the society; dissolution and liquidation; recoupment of the society's losses from the share values of members; the acquisition, sale and charges of landed property; the election and remuneration of directors and members of the committee of supervision, of the valuation committee (section 77) and of the special committee of audit (section 91); demands to sue or prosecute any members of the directorate or of the committee of supervision; the dismissal from office of directors or committee members; specific complaints against the conduct of business and against the decisions of directors and committee members; the approval of the business regulations drawn up by the directors and committee; the fixing of a maximum (*a*) for the aggregate of deposits, savings deposits or other loan funds to be received by the society, (*b*) for loans granted at one time to any individual member; the opening of business in accounts current; the division of profits at the end of the year, and the acquittance to be given to directors for their conduct of business; the expulsion of members; the joining or quitting the general union or a sub-union of societies.

Members and their position.

51. Every one is admissible as member who is capable of free contract and who is not already a member of another similar society.

Candidates are accepted by the directors and committee upon a written declaration of unconditional adherence to the statutes of the society. Such declaration is forwarded by the directors to the Court for entry of the candidate's name on the list of members; on such entry he becomes a member. The declaration must contain the express statement that the member is personally responsible for the engagements of the society both towards itself and towards its creditors in all his property and in conformity with the law. It must be executed in duplicate, one copy being sent to the Court and the other retained by the society.

A candidate rejected by the directors and committee may appeal to the general meeting.

52. Every member is entitled to withdraw on giving notice in writing, to take effect at the close of the business year; it must be given in four months previously.

53. A member may be expelled—

(1) if he loses his civil rights;
(2) if he fails to fulfil his obligations in the matter of dues exceeding three months in arrears especially if two notices have been disregarded;
(3) if he becomes a member of another similar society; *
(4) if it is found necessary to proceed against him in Court for a debt, or if he has occasioned loss to the society or to a surety;
(5) if he becomes bankrupt.

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* The reason for this is that the societies of this class are 'unlimited'; consequently, if a member of one society joint another also, the former society may lose, by the failure of the latter society the whole value of the member's security.

Expulsion is by decree of the general meeting. An expelled member must be informed forthwith by the directors by registered letter, from the date of which he ceases to have the right to take part in the society's operations.

54. The directors must forward to the Court the withdrawal notice of a member at least six weeks before the close of the year. In the case of expulsion, a copy of the decision must similarly be sent to the Court.

55. The withdrawal or exclusion has effect on the erasure of his name from the list of members in register of the Court.

56. Death is considered as a withdrawal from the end of the business year in which death took place: up to that date the heirs of the deceased exercise his rights.

57. The directors must inform the Court of the death of a member as soon as they are notified of it.

58. The share value of a retiring or deceased member must be paid over within six months subsequently; but he shall have no claim upon the reserve or any other asset of the society.

If, upon the liquidation of the society, its assets, including reserve and all debts due to it, are insufficient to cover its liabilities, a retired member must pay his share of the deficit, * and withdrawal is null and void if the society liquidates within six months of withdrawal.

59. A member cannot withdraw by transfer of his membership.

60. Members are entitled—

(1) to vote at general meetings and to move resolutions thereat (40 and 45);
(2) to summon general meetings (44);
(3) to avail themselves of all the arrangements made by the society to attain the object of its operations;
(4) to demand a share of the profits in conformity with article 89 and following articles.

61. *Per contra* every member is obliged—

(1) to subscribe to the society as per articles;
(2) to pay on admission the entrance fee (66);
(3) not to act against the present articles or against the decisions and interest of the society;
(4) to answer with all his property for the engagements of the society in conformity with the law for societies of unlimited liability.

Shares.

62. Each share is fixed at . . . . marks (shillings); such share may be paid up in one sum on entrance or by successive instalments of at least . . . . pfennigs (half farthings) per month.

63. All profits due upon such share shall, till it is fully paid up, be credited to such share.

64. Each member will receive a pass-book in which, at the end of the year, will be entered by the directors all payments made by the member on his share, all profits accruing, and all deductions due thereon.

The payments made by a memoer on his share, and the profits accruing thereon, form his share of the society's assets, but will not be paid over to him in whole or in part so long as he is a member, nor will it be accepted as a pledge. No member can be excused payment of any sum due upon his share.

Reserve.

65. The reserve is formed to cover any losses which cannot be met out of the transactions of the year.

It is formed from entrance fees and from a share of the net profits (article 94), and must accumulate till it reaches at least 15 per cent. of the total assets of the society and must be kept constantly full.

66. The entrance fee may vary from time to time.

67. The widow or heir of a member will be relieved from the entrance fee should she or he seek and obtain admission as member within six months of the deceased member's death.

68. The whole reserve must be retained intact until dissolution of the society: no withdrawing member has any claim over it.

Operations.

69. The society will borrow according to and on the security of debts due to it and against the deposit of savings banks' pass-books; it will enter into business relations with banks and, if necessary, open accounts with them. It will do business with other societies especially with the object of providing a common fund.

It will grant term loans to members, discount their bills and open ordinary accounts current or cash credits with them. It will transact business for its members on commission.

The society cannot acquire immovable property except for its office or temporarily in guarantee for a doubtful debt.

It will not buy public stock or other securities except for the investment of its reserve or for the temporary utilization of surplus cash.

All speculative purchase of paper is forbidden.

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* *See* section 72 of the law, which limits this responsibility to two years after withdrawal.

70. The development, limitation and conduct of business will be regulated by the directors and committee jointly. They will, when necessary, submit their business regulations for the confirmation of the general meeting. They will fix, according to the money market and the needs of the society, the rate of interest upon deposits as well as the interest and commission payable upon loans granted.

71. *Loans.*—Demands for loans are examined by the directors and finally decided upon by the committee; the reason for any decision need not be published.

72. Loans are only granted to members and only in proportion to their solvency or upon good collateral security.

73. Collateral security may be either—

(1) one or more sureties;
(2) the deposit or assignment of mortgages;
(3) the deposit of good public securities quoted on the exchange.

No loan will be made direct upon mortgage, but in case of a doubtful debt such security may be accepted in default of any other security. For a cash credit a mortgage may be accepted as security.

74. (Omitted).

75. A loan may be granted up to 80 per cent. of the value of a mortgage pledged or assigned.

Advances upon public securities and other paper may be granted up to 80 per cent. of their market quotation. In case of any fall in the market during the pendency of the loan, the borrower must give additional security or make an additional in-payment.

76. Directors in office cannot obtain any loan or use the funds of the society for their own advantage on pain of immediate loss of office.

77. Members of the committee of supervision cannot, while in office, obtain loans except upon good securities and for an amount the maximum of which shall be fixed by a special committee of three members appointed each year by the general meeting.

78. Directors and committee members will not be accepted as sureties while in office.

79. A member may obtain at the same time several loans upon proper securities and within the limits of his solvency.

80. *Deposits.*—Deposits will not be accepted for less than . . . . marks at a time, and for less than three months certain.

The rate of interest will be fixed from time to time by the directors and committee according to the money market, the needs of the society, and the term of the deposit. Repayment of depoists before the expiry of the term will be allowed only upon deduction of a commission to be fixed by the directorate and committee.

81. *Savings deposits.*—Savings deposits are accepted in the savings branch in sums of from one mark to . . . . marks, receipts being given by the directors in the pass-book of the depositor.

The terms of such deposits, rate of interest and conditions of repayment will be fixed by the directors and committee, subject to confirmation by the general meeting.

82. *Loans.*—Loans of fixed term will be made to members against bills accepted by them for . . . . months at least and . . . . months at most.

83. The date of repayment may be postponed once or oftener: each renewal shall be for . . . . months at most, and only on such conditions as shall prevent the loan from becoming a permanent investment of funds.

When the collateral security is a surety, the renewal must have the consent of such surety.

A renewal may be refused at any time without reason assigned, or it may be granted only upon payment of an instalment on account. If the money market is fluctuating, no renewal should be granted without payment of an instalment. Loans may be repaid at any moment in whole or in part.

84. *Discounts.*—The society will discount bills of exchange presented to it by a member if payable at a fixed date and not more than . . . . months échéance, and if bearing at least two good signatures. Interest shall be calculated by fortnightly periods, and no refund will be made should the bill be met before due date.

85. *Accounts current and cash credits.*—The society will open accounts current with members bearing interest either ordinary or as cash credits.

Accounts will be made up every six months. On the opening of an account, the society will reserve the right of closing it at any time. On the closing of an account, any sum at credit of the member must be withdrawn within fourteen days, after which no interest will be allowed and any amount at his debt must be repaid within four weeks. Cash credits must be duly secured by proper guarantees.

Accounts, Profits and Dividends.

86. The business year shall correspond with the calendar year. Immediately after its close—

(1) the committee shall proceed to examine the cash, documents and securities;
(2) the directors shall make up the books.

87. The directors must send the statement of accounts for the year to the committee by the end of March at latest: in case of default, the committee may get such statement prepared by other persons at the cost of the directors.

88. The statement must comprise—

(1) an abstract of all the receipts and disbursements of the year under the several heads of account;
(2) a special statement of profit and loss;
(3) the balance sheet showing assets and liabilities at the close of the year.

89. In the balance sheet must be shown as liabilities the debts, the reserve, and the sums due to members; amongst the assets will be shown the value of all movable and immovable property less allowance for depreciation and wear and tear, cash in hand, public securities at the minimum current value, the debts due to the society in its several branches; doubtful assets must be shown only at their probable value, irrecoverable dues being altogether struck out.

The balance sheet must also show the interest account drawn up as follows:—All interest due by the society accruing during the year, though not payable till next year, together with any interest due to the society and received in advance during the year, shall be placed on one side: on the other all interest due to the society accruing during the year though not payable till next year.

The excess of the assets over liabilities obtained as above is the net profit for the year.

90. The audit of the accounts is undertaken by the committee, for which purpose it must use the books, documents, and inventory mentioned in article 86 *supra*. It may call in the aid of competent persons to be remunerated according to agreement.

91. The committee's audit report must be submitted to the next ordinary general meeting, which will decide whether to accept the report.

In case of doubt as to the accuracy of the accounts or of the audit, the general meeting may appoint a special committee of three members to make a special audit: such committee shall have all the powers of the committee of supervision as contained in articles 34 and 35 *supra*. The meeting may proceed to such appointment, notwithstanding that no previous proposal to that effect may have appeared on the agenda for the meeting.

92. The disposal of the net profits is determined by the general meeting. Such profits, in so far as they are not necessarily credited to the reserve or otherwise necessarily employed, may be divided among the members in proportion to their shares in the society until such shares are fully paid up, or may be used to recoup any previous loss upon a debt due to the society.

93. In calculating dividends on shares, fractions of marks in the shares shall not be taken into consideration, and only such sums as had been paid up on the shares prior to the beginning of the year in which the profits accrued shall bear interest.

94. Until the reserve shall have attained the amount fixed in article 65 *supra*, at least 15 per cent. of the net profits shall be credited to such reserve before declaring any dividend to members. Should such reserve have been reduced below the normal by losses, a similar percentage shall be credited to it.

Liquidation.

95. The society may be dissolved—

(1) by decision of the general meeting as per article 38;
(2) upon a declaration of its insolvency;
(3) by decree of Court when the number of members falls below seven;
(4) by order of the authorities mentioned in section 79 of the law (for alleged acts or omissions which are contrary to the general welfare, or for undertaking operations other than those permitted in the law of co-operative societies).

96. Insolvency will follow suspension of payments, or in case of liquidation should liabilities exceed assets.

Not only creditors but also directors may propose a motion of insolvency.

97. Members are jointly and individually responsible in the whole of their property to the creditors of the society for any losses sustained by such creditors and not satisfied by the distribution of the assets of the society.

But the creditors of a society have no remedy against individual members till after three months from the date on which the society shall have proceeded to levy an additional *pro ratâ* assessment from the members, and even then only for claims already admitted but not satisfied.

Members who may have withdrawn from the society within the two years preceding the commencement of proceedings are only liable to the creditors in bankruptcy for admitted liabilities contracted prior to the withdrawal of such members, and only after six months from the date on which the society shall have proceeded to levy any additional *pro ratâ* assessment from members.

98. On the dissolution of a society, its liquidation is to be effected, except in cases of bankruptcy, according to section 81 *et seqq.* of the law. Liquidation shall be carried out by the directors unless the general meeting appoints other liquidators.

99. Immediately after the commencement of liquidation and each subsequent year, a balance sheet must be prepared by the liquidators (with the precautions to be observed as in ordinary balance sheets). The first of such balance sheets must be published and sent to the registering office.

100. Should the assets not cover the liabilities, the reserve must be drawn upon; if this is insufficient recourse must be had to the share capital of the members. Should the deposit not absorb the whole of such share capital, the required amount must be obtained by a *pro ratâ* levy upon the several shares. No member has any right to proceed against any other member merely by reason that the amount which the former has lost is greater than that lost by the latter, provided that the latter has paid his dues according to article 62.

101. If (in case of ordinary dissolution), after paying up all debts and the dues to members, there shall remain any surplus, it shall be distributed as follows: (1) the dividends due for the last business year; (2) a division *per capita*, provided that this latter shall not take place till one full year from the date on which notice to creditors shall have been published for the third time.

102. In the case of bankruptcy, should any surplus remain after creditors are satisfied, it shall be distributed as follows: (1) any assessment made upon the share capital of members shall be replaced; (2) the remainder may be granted as dividend.

103. If, after the exhaustion of the reserve and of the share capital, the balance sheet shows a further deficit, the liquidators shall propose that all further payments be effected as proceedings in bankruptcy.

104—106 relate to the mode of issuing notices and other publications and to the selection of a newspaper in which they shall be published.

MODEL ARTICLES—RAIFFEISEN CREDIT UNION.*

Chapter I.—Constitution and Objects.

1. The undersigned have formed a loan society under the name of Society, registered and unlimited. †

Its place of business is and its area of operations is limited as follows:—

2. The primary object of the society is to supply its members with the capital necessary for the carrying on of their business or of their household by means of loans at interest. Such capital will be provided by means of the joint guarantee of the members. To assist in this object a savings bank will be attached to the office.

The society will also pursue the objects mentioned in items 2 to 6 of section 1 of the co-operative law of 1st May 1889. ‡

Chapter II.—Members, their Rights and Duties.

3. Members may be of either sex but must be residents of the area above-mentioned, not dependent upon others (*e.g.*, minors, &c.), possessed of full civil rights, and not members § of any other loan society.

The admission of new members must be consented to by the directors.

Appeal against rejection lies to the committee of supervision, the decision of which is final. The status of member follows from entry on the register of societies.

4. Membership ceases—

(*a*) by retirement,
(*b*) by a removal of residence beyond the area of operation,
(*c*) by expulsion,
(*d*) by death.

The notice of retirement must be given in writing to the directors at least three months before the close of the business year, and its receipt must be acknowledged; at the expiry of such year the member ceases to be a member.

Expulsion is permissible upon non-fulfilment of contract obligations, and may also follow when a member has, for more than six months, been in arrears with his subscriptions. It may also follow the loss by a member of his civil rights or freedom of action, or when a member refuses to retire after joining another similar society; or when a member ceases his subscriptions, or engages in acts contrary to the principles of the society, or, finally, when, after repeated warnings, it has been necessary to sue a member for arrears of his dues upon a loan.

Expulsion is decreed by the directors and takes effect from the end of the business year. But an expelled member ceases to have any rights whether as member of the directorate, of the committee of supervision, or of the general meeting, from the date of despatch by the directors of a registered letter notifying to him the fact of his expulsion.

In case of decease the date of retirement is calculated according to section 75 of the law of 1st May 1889.

The settlement of accounts between the society and a member who has withdrawn or been expelled is based upon the financial situation at the moment of his quitting the society, according to sections 71 and 72 of the law.

5. Members have the right—

(*a*) to take part in and vote at general meetings; this right is lost by members who voluntarily withdraw, from the date of their resignation. Each member has one vote. The right of voting is purely personal. A group of heirs vote by means of a proxy. Only a single member can be represented by each proxy.

Female members may not take part in general meetings, but may be represented by proxies with the right of vote,

(*b*) to apply for loans from the society in accordance with the rules contained in these articles, and up to the limit of the available funds; also to make deposits therein at interest.

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* See Vol. I, pp. 144–154.

† All Raiffeisen societies are 'unlimited' and are generally restricted each in its area of operations to one village (commune, Gemeinde); Raiffeisen recommended 2,000 as the maximum and 400 as the minimum population within such area.

‡ See *supra* page 77.

§ This provision is necessary since each member pledges his whole property for the obligations of the society: hence, if he belonged to any other society such pledge might amount to nothing in case of liquidation. Moreover he might obtain loans from each society to the full value of his credit, and defraud one or the other by declining to repay such loans.

6. Members by their declarations upon admission, bind themselves—

(*a*) to answer for the debts and engagements of the society; to the society itself by equal contributions, but to third parties with all their property.* The declaration of a member upon admission must contain an express entry to this effect;

(*b*) to subscribe for a share;

(*c*) to obey scrupulously the rules of the society and to further its interests under all circumstances.

Chapter III.—Administration.

* * * * *

7. The business of the society is conducted by—

(*a*) the directors;
(*b*) the committee of supervision;
(*c*) the general meeting;
(*d*) the accountant.

8. Directors shall be . . . in number including the president of the society, and a vice-president. Directors hold office for four years: every two years . . . retire; the first set are chosen by lot.

9. In case of the withdrawal or prolonged disability of a director, the committee of supervision shall appoint a substitute who shall hold office till the next general meeting, at which the vacancy shall be filled by election. Directors thus elected shall hold office only for such period as it would have been held by the directors for whom they are substitutes.

10. The powers of directors are determined by the resolutions of a general meeting as entered upon the minutes. Directors shall notify their election to the court † by forwarding a copy of the resolution of the general meeting; they must also enter a specimen of their signatures in the court, or send such specimen duly authenticated by a court or notary.

Directors sign for the society, adding the name of the society to their own. Except as hereinafter provided the signature is only valid if it is that of the president or vice-president or of at least two directors.

For the repayment in whole or in part of loans, for loans of 75 marks or less, and for deposits in the savings bank attached to the society, the signature of the accountant and of two directors is sufficient.

The society is represented by the directors both judicially and extra-judicially according to the provisions of the law. In law suits and in meetings of unions of societies, any director may represent the society without any special authorization save that of the resolution relative to the matter in issue. The president or vice-president will ordinarily represent the society: in case of their inability, any director may be chosen.

In the transaction of commercial or legal business before a notary or court, and especially in matters before the registrar of mortgages, the directors will determine their course of action and appoint two of their number to carry out their decision.

Per contra directors are bound by any restrictions contained in the present articles, and in any resolutions of the general meeting and of the committee of supervision. In borrowing on behalf of the society they are especially bound to keep within the limits fixed by the general meeting, and in the matter of all suits or contracts, save only suits against members of the society for the recovery of dues, they must previously obtain the assent of the committee of supervision.

They are expressly forbidden to speculate on behalf of the society in any class of paper.

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12. No special notice is required for ordinary meetings of directors. For special meetings, as also for the general meetings, the notices, which must be accompanied by an agenda paper are issued by the managing director The notice for a general meeting must be published at least one week prior to the meeting date.

All published notices must be signed by the managing director and printed in the . . . journal.

13. Directors must meet as often as may be necessary and not less often than once a month regularly, to decide upon requests for loans.

Decisions of the directors will be valid if they shall have been made in a regular meeting by the managing director and at least two other directors.

14. Directors are specially bound—

(*a*) to obey and carry out all the provisions of these articles and of the law and all valid resolutions and instructions of the general meeting and of the committee of supervision;

(*b*) to hand over all debt bonds for loans contracted on behalf of the society;

(*c*) to decide upon the admission or expulsion of members, upon receipts and expenditure, and upon the grant of loans, and to watch over the punctual repayment of loans;

(*d*) to verify with the managing director the accounts and cash balances, and to invest as promptly and safely as possible, any surplus funds;

(*e*) to examine before the 1st of April in each year the balance sheet and accounts of the preceding year.

In disposing of applications for loans, the accountant may be called in and his opinion consulted.

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* That is, the society is entitled to collect from its members such contributions as may be necessary to meet its liabilities, these contributions shall be collected from all members in equal parts. But third parties as creditors, are entitled to proceed not only against the society as a corporation, but against each member individually, and such individual member is liable in all his property for such claim; the right of the creditor then devolving upon him, so that he may recover from the society or from other individual members. See sections 2, 116–119 of the law, and the note thereon.

† See sections 10 and 11 of the law.

15. The managing director carries out and supervises the work of the society, especially in the matter—

(*a*) of carrying on correspondence and preserving all papers ;
(*b*) of keeping the prescribed list of members, of issuing all notices and advices required by law, and of publishing the balance sheet of each year within the first six months of the succeeding year ;
(*c*) of carefully verifying the cash and the accounts, of issuing pay orders, of preparing with the accountant the balance sheet, and of maintaining a proper audit. The directors may nominate another director for auditing the accounts, but such audit must nevertheless be supervised by the managing director ;
(*d*) of issuing notices for the meetings of directors and for the general meeting ;
(*e*) of presiding at directors' meetings and of appointing a secretary ;
(*f*) of preparing an annual report on behalf of the directors and of presenting it at the ordinary general meeting in spring.

Committee of Supervision.

16. The committee of supervision consists of . . . members, distributed in such wise over the area of operations, that, together, they possess a complete knowledge of the circumstances of the various residents. The number may be increased by resolution of the general meeting, but must always be divisible by three. They elect annually a chairman and vice-chairman from among their number.

Members are elected to office for three years : each year one-third retire, the retiring members being chosen by lot in the first two years. In case of the death or withdrawal of a committee member the committee will appoint a substitute until the election of a new member at the next general meeting.

17. The committee is bound to watch over the interests of the society in every matter, to take steps that the directors act in accordance with the articles and carry out all resolutions whether of the committee or of the general meeting punctually ; it is at liberty at any moment to examine the accounts and securities of the society and to demand the production of cash in hand. If it is discovered that any director or the board of directors, or the accountant has disobeyed any stipulation of the law, of the articles, or of any resolution, or has in any way acted contrary to the interests of the society, it must take such steps as may be necessary to safeguard the society's interests. It may dismiss any director or the whole board, or the accountant, but in such case, as also in any case when it considers that the interests of the society are endangered, it must at once call a special general meeting and report the matter for orders : the chairman of the committee will assume the place of managing director for the purpose of reporting to the meeting.

In suits by the society against the directors or in contracts made by the society with them, it is the committee which will take action through its chairman or vice-chairman and a senior member of the committee.

18. The committee is specially bound—

(*a*) to issue instructions to the directors and accountant ;
(*b*) to settle the accounts and balance sheet before the 1st May ;
(*c*) to decide what powers should be given to the directors in the matter of suits and in the cases referred to in section 11 of these articles, and to represent the society in suits against directors ;
(*d*) to examine the securities accepted or tendered for loans, once in every three months at their regular meetings ; to decide whether loans should be called in ; and to make or institute a special audit of the business of the society once every year.

Regular minutes must be drawn up of the proceedings in the ordinary meetings of the committee as well as of the proceedings in the special audit above mentioned.

The chairman of the committee is responsible to the society for the due execution of the above duties. If necessary he may obtain the expulsion of negligent members of committee and their replacement by new ones.

19. The committee must meet for the transaction of business at least once in every three months at dates fixed by the general meeting, and whenever called upon by the chairman. At least half of the members of the committee must be present to form a quorum, the chairman or vice-chairman being of the number. The chairman has a casting vote.

General Meeting.

20. The powers of the society are vested in the general meeting which consists of all members of the society and of those who are entitled to vote as per section 5 of these articles. The general meeting must maintain a general supervision over the business of the society, especially over the acts of the committee of supervision, and must take all steps necessary in the interests of the society.

It is the general meeting which passes the balance sheet, and settles the amount of profit and loss falling to the members.

The chairman of the committee of supervision presides at the general meeting unless the latter elects its own chairman.

The general meeting also decides upon the acceptance or rejection of the report relative to the accounts and business of the society. This resolution shall ordinarily be made in the regular spring meeting.

21. The general meeting must assemble at least twice in each year, viz., in spring and autumn and as often as may be judged necessary by the directors, by the committee of supervision, or by at least one-tenth of the members should such number address a written demand to that effect to the

chairman of the committee of supervision with a statement of the object and reasons of the demand. If the chairman neglects to call a general meeting upon such demand, any member of the directorate or committee is authorized to give effect to it, and if all of these neglect to comply with the demand, the abovementioned members themselves may do so, after first obtaining an authorization from the court.

Except in the matters provided for in sections 35 and 36 *infra*, the resolutions of a general meeting are valid whatever the number of members present, provided that the subjects for discussion have been duly entered in the meeting notice.

Subjects not duly notified beforehand in the meeting notice as provided in section 12 *supra*, may not be discussed, save only matters relating to the conduct of the meeting, and proposals to call an extraordinary general meeting.

Except in the cases specified in sections 35 and 36 below, the resolutions of a general meeting are binding on all the members of the society when they have been passed by more than half of the members present at the meeting. The chairman of the meeting has a casting vote.

The general meeting may, upon a regular motion to that effect, depose the managing director from office, and appoint another member in his place.

The general meeting may, by specific resolution, fix the fine payable by such members as fail, without good excuse, to attend general meetings, and any such members shall be bound to pay such fine.

22. The general spring meeting elects by absolute * majority and by open vote, from among the male members:—

(1) the managing director;
(2) his deputy;
(3) the accountant;
(4) the other directors;
(5) the members of the committee of supervision.

If the majority is not absolute at the first voting, the meeting shall proceed to election by ballot, in which the number of candidates shall be restricted to twice the number of vacancies. In case of an equal number of votes the matter will be decided by lot.

Retiring office-bearers are re-eligible; supplementary elections may be held at extraordinary meetings.

23. Votes shall ordinarily be taken by show of hands unless the meeting decides in particular cases to vote by secret ballot or by written votes.

The chairman shall appoint two tellers to count the votes.

The Accountant and the Accounts.

24. The cash and books of the society are entrusted to an accountant appointed for four years, subject to three months' notice in case of resignation.

It is the duty of the accountant—

(*a*) to receive all monies and to make all disbursements according to the orders issued under section 18 (*a*) and by the managing director, to keep the books, the cash in hand, and the securities;

(*b*) at the end of each business year to settle and close the accounts and to submit in duplicate to the managing director before the 1st March, the balance sheet and accounts of the preceding year, together with all necessary documents in support thereof, and a detailed statement of the assets of the society.

25. The accountant may not be either a director or member of the committee of supervision. But he may be called on for his opinion by the directors when loans are in question. He is responsible to the society for the custody of its funds and for the proper management thereof. He must provide a surety or good security in an amount fixed by the general meeting, which shall be answerable for any deficiency in the cash balances or for any loss due to the default of the accountant, as well as for the costs of ascertaining and recovering such deficiency or loss.

26. The balance sheet must be drawn up on due business principles and must show in abstract.

(A) the total assets of the society including—
(1) the balance in cash and Government paper at the end of the year;
(2) the debts due to the society in their several classes; debts of doubtful value shall be entered at their minimum probable value, and those considered as irrecoverable shall be wholly excluded;
(3) the value of any moveables and immoveables possessed by the society as valued at the end of the year;
(4) interest due up to the end of the year.

(B) the liabilities of the society, including—
(1) every payment made to it in excess of the due amount;
(2) all business debts due by the society, whatever their due date of payment;
(3) the share amounts due to members;
(4) interest owed up to the end of the year though not payable till next year.

The difference between assets and liabilities shall form the profit or loss of year.

The balance sheet and an abstract of the accounts for the year showing profit and loss, shall be placed at the disposal of the members in some place and manner convenient for their examination thereof at least eight days before the general meeting at which it is to be discussed. Any member is entitled on payment to a copy of the above.

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* *I.e.*, a majority of more than half the members present.

General.

27. The directors and members of the committee of supervision are all honorary and serve gratuitously, and can claim only expenses out of pocket.

The accountant will receive remuneration corresponding to his labour; the amount shall be fixed by a specific resolution of the general meeting. Directors may give orders for the re-imbursement to members of their actual expenses.

All minutes of meetings, whether of the directors, committee of supervision or general meeting, shall be recorded in bound and paged volumes, in which all resolutions must be regularly entered. In the case of meetings of directors and of the committee of supervision, all present shall sign their names to the minutes after they have been read and approved: the resolutions of a general meeting shall be signed by the chairman, by two members present at the meeting, and by the secretary appointed by the meeting.

CHAPTER IV.

28. The funds of the society consist of the share subscriptions, borrowed funds, the deposits of the savings branch, commission fees, and surplus interest. These funds are employed in loans at interest to the members, in the expenses of the society, in the formation of a reserve, and in matters of the common welfare.

29. Every member of the society must subscribe for one share; subscription may be made by instalments of at least per month, or by a single payment. Only one share may be subscribed for.

These shares are the personal property of the respective members. Should the society be dissolved the members are considered as creditors, but only take the last rank.

So long as a member continues in the society his share can neither be withdrawn, transferred, charged nor attached by a creditor. On the other hand, in case of liquidation of the society the shares will be used in the first place to satisfy the liabilities of the society should the other assets prove insufficient.

Withdrawing members can claim the repayment of their subscriptions unless the ownership in such shares shall have been made over to the society, or unless they are required in case of liquidation. Repayment must be made within six months of the expiry of the business year, unless the retiring member is in debt to the society.

The dividend payable upon the shares shall not exceed 4 per cent. The rate is fixed for each year by the committee of supervision after setting aside the amount payable to the reserve as required in section 34 *infra*. All dividends are credited to shares until such shares are fully paid up.

30. The general meeting shall fix by express resolution the amount which may be borrowed by the society including therein the deposits in the savings branch, as also the commissions and interest payable by members upon loans.

31. Loans may be made to members by the directors—

(*a*) For short terms up to one year, renewable by the directors up to a total duration of two years at most;

(*b*) For long terms up to 10 years.

If loans are required for terms longer than 10 years the matter must be placed for decision before the general meeting.

The general meeting also fixes, by special order, the dates of the annual repayments.

The society reserves to itself the right of calling in any outstanding loans on four weeks' notice, but this power may not be used save where there is a general run upon the society by its creditors, or when the debtors of the society or their sureties are in such a position that the funds of the society are endangered.

(*c*) On cash credits.

The general meeting can alone decide what shall be the maximum amount advanced to any one member upon cash credit by the directors. Credits above this amount may not be granted by directors without the assent of the committee of supervision.

The due employment of the loans granted must, as far as possible, be supervised.

Complaints against refusals to grant loans must be addressed to the committee of supervision, with a final appeal to the general meeting.

32. The security given for loans or cash credits must be absolutely good; such security may be either personal sureties, mortgages, or the deposit of good public paper such as is allowable for the investments of trust and charitable funds.

If the security given is a surety or mortgage, care must be taken that the surety or the property mortgaged is worth at least double the sum borrowed. If it is public paper, then the current market price must exceed the loan by at least one-third.

33. (Relates to a method of counteracting a mode of usury peculiar to Germany.)

34. A reserve shall be formed for the purpose of covering any losses. For this purpose at least 10 per cent. of the profits calculated as in section 26 *supra* shall, for a period of 10 years, be annually credited to the reserve, and in addition so much of the profits as remains after paying in the above 10 per cent. and a dividend of 4 per cent. upon the shares.

After the expiry of 10 years the general meeting may, by a simple majority, determine the mode of distributing the profits so as to complete the reserve fund.

Sections 88 and 89 of the law are applicable to the division of the reserve in case of dissolution. So long as the society is in existence no member has any individual claim over the reserve, nor can the members require its distribution.*

CHAPTER V.

35. The present articles may be modified by a general meeting specially convoked for the purpose at which at least half of the members of the society are present.

If such number is not present a second special general meeting may be convoked which may pass resolutions on the subject irrespective of the number of members present. But in the notice convoking the second meeting it must be expressly mentioned that resolutions will be passed irrespective of the number present.

To carry a resolution of the above nature there must be a three-fourths majority of those present.

36. The voluntary dissolution of a society cannot take place should more than two members object to such dissolution: if three members protest, the society cannot dissolve, but those who desire dissolution may retire from the society.

Any proposal to dissolve a society must be addressed in writing to each member at least four weeks before the general meeting which is to dispose of the motion.

37. Disputes regarding the contents of the articles, or between members regarding the operations of the society, are to be disposed of by a general meeting with leave to appeal from such decision by a suit in court.

38. The first general meeting will choose by open voting—

(*a*) the chairman of the meeting;
(*b*) the members of the committee of supervision, the directors, and the accountant; it shall not be necessary at such meeting that the rules regarding the convocation of the meeting and the methods of voting shall be observed.

ARTICLES OF THE GENERAL UNION OF THE RURAL CO-OPERATIVE SOCIETIES OF GERMANY AT NEUWIED (RAIFFEISEN).†

CHAPTER I.

1. (Title and foundation).

2. *Object.*—The union has as its objects—
(1) the examination by its inspectors, as prescribed by law, of the (affairs, methods and accounts of the) societies adhering to it;
(2) the representation and guardianship in every respect of the interests of such societies;
(3) and, especially, the duty of organizing means for the sale and purchase of agricultural products and necessaries.

3. *Head-quarters and sphere of operations.*—The union shall have its head-quarters at Neuwied and may operate throughout the empire.

The minimum number of its adherent societies shall be 20, and the maximum, provisionally, 5,000.

CHAPTER II.—MEMBERSHIP, &C.

4. *Admission.*—The union will admit—
(1) rural credit unions (of the Raiffeisen type):
(*a*) which according to the co-operative law are constituted on the principle of unlimited liability or of unlimited supplementary payments (unbeschrankter Nachschusspflicht);‡
(*b*) which by suitable arrangements endeavour to better the condition of these members both morally and materially;
(*c*) which only accept members, whatever their livelihood, from within a defined and very narrow area so that no member can belong to more than one society;
(*d*) which demand no entrance fee, and divide not more than 4 per cent. annually as dividend on the shares;
(*e*) which fix their shares at a maximum of 15 marks (shillings) each and allow a member to hold only one share;
(*f*) which grant no remuneration to any of their functionaries except the cashier, but only repay expenses out of pocket;
(*g*) which allot at least two-thirds of their annual gross profits to the accumulation of an endowment fund (Stiftungsfonds) for the advancement of the economic (or business)

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* In another set of model articles the following are the provisions relative to the reserve:—

"After payment of the dues of the society and the dividend, the whole of the surplus shall go to a reserve intended to meet any losses sustained by the society. Should the own capital of the society attain such an amount that the society can work on its own funds, the interest on such capital and the profits of business may be employed on some local work of public utility. The charges on loans should, in such case, be lowered.

"The reserve is the common property of the society: no member has any individual right over it, nor can he demand its distribution. In case of the voluntary dissolution of the society the reserve shall be deposited in the Imperial Bank, there to accumulate at interest until the formation of a new loan society which shall adopt the present (or similar) articles and be established in the same local area, in which case the fund in question shall at once be handed over to the new society."

See on the subject of the reserve, sections 7 (4), 20 and 156 of the co-operative law of 1889.

† The work done by this society was formerly done, or contemplated, to a greater or less extent, by the central bank which consisted of two sections, one financial, the other supervisory. On the passing of the general co-operative law of May 1889, the supervisory section of the central bank was abolished and a separate society formed for the sole purpose of audit and supervision in conformity with Chapter IV of the law, q.v.

‡ See the law of 1st May 1889 translated *supra*.

circumstances of its members; or, if the law permits, accumulate at compound interest from the surplus income, after allotting the dividend, an indivisible and common reserve fund;

(*h*) other registered co-operative societies, not being joint stock share societies, which seek to better the economic position of their members, such as vineyard, cherry, &c., associations.

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6. (Rules for the mode of admission, withdrawal and expulsion of members (societies).

7. *Duties.*—Societies which belong to the general union are bound to the following duties:—

(*a*) to observe the principles mentioned in section 4 (1) and to fulfil the conditions therein contained;

(*b*) to accept the rules prescribed by the union for business and account keeping;

(*c*) to submit to examination by (the inspectors of) the general union and especially to the audit prescribed by law;

(*d*) to take in the organ of the union, viz., the 'Landwirthschaftliche Genossenschaftsblatt';

(*e*) by the first of May in each year to transmit the balance sheet of the preceding year to the chairman of the union, and any later information, and to mention any subjects which may seem of general interest;

(*f*) to pay the annual contribution due as costs of audit;

(*g*) to send at least one director to attend the ordinary meetings of the union, as also of the group (Unterverband) meetings, and to carry out the resolutions of the same.

8. *Rights.*—The adherent societies have the right—

(*a*) to demand at least once in every two years an examination (of their affairs) by an inspector of the general union.

(*b*) to be represented by their delegates at the meetings of the union or of the groups, and to submit thereat their proposals, provided that such have been sent by the 1st April at latest to the union chairman.

(*c*) to share in all the benefits offered by the general union, especially in those resulting from its organization for common purchases and sales.

Chapter III.—Administration.

9. *Organs.*—The duties of the general union are carried out by its chairman (general Anwalt) and his deputy (articles 10 to 13), by the general council (14 and 15) and by the general meeting (16 to 22).

10. *Chairman.*—The chairman as director undertakes the carrying out of the work of the union; he is elected by the general council who can also nominate one or more deputies.

11. *Duties of the Chairman.*—It is the duty of the chairman—

(*a*) to work for the dissemination and encouragement of the Rural Co-operative System especially as regards the Credit Unions of the Raiffeisen system, strictly in the spirit of its founder, to watch over their interests in every respect, to assist them in every possible way (mit Rath und That);

(*b*) to issue the necessary rules for the working of the societies and for their book-keeping;

(*c*) to arrange for suitable examination of the adherent societies according to law, and to appoint the necessary inspectors;

(*d*) and (*e*) (These require information regarding the societies, their business and the meetings of the union to be sent to the Government authorities);

(*f*) to summon the meetings of the general union, to carry out the resolutions of the same and of the general council, to appoint the staff, to carry on the current business and to present the annual report at the general meeting.

12. The chairman is responsible for the office arrangements of the union.

13. *Rights of the Chairman*—

(*a*) to propose to the general council the expulsion of adherent societies, to order extraordinary examinations of any society which he considers to be necessary in its own interests; to attend in person or by representative and to speak at the meetings of the general union and of the groups, as also at the general meetings of the adherent societies.

14. *The General Council.*—The general council consists of the members of the committee of supervision of the Agricultural Central bank and of the directors of the union; it acts as a standing committee of the general meeting of the union.

Its duties are—

(*a*) to elect the chairman (general Anwalt) and his deputy, provided that the director of the Agricultural Central bank or his representative shall ordinarily be chosen as chairman;

(*b*) to examine the employment of the funds of the union, to settle the accounts of the year and to lay them before the union;

(*c*) to watch over the interests of the union in every respect and in case of necessity to summon an extraordinary meeting to decree the expulsion of adherent societies on the motion of the chairman;

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(*e*) to fix suitable dates for the holding of meetings of the union.

15. (Rules for the meetings, &c., of the Council.)

16. *General Meeting.*—The general meeting of the union consists of the delegates of the adherent societies. Only directors of such societies may vote, but other members may take part in the meetings without the right of vote.

17. (Rules for the place and time of meetings.)

18. *Authority of the General Meeting.*—It is reserved to the general meeting—

(*a*) to decide all matters of common interest;

(*b*) to appoint committees for the due management of affairs;
(*c*) to receive the annual report from the chairman and as regards the accounts, to grant him quittance;
(*d*) to decide upon any changes in the articles;
(*e*) to authorize the formation of sub-unions and groups and to permit their representation by delegates: such unions and groups must, as far as possible, be conterminous with political divisions [*e.g.*, districts and circles (taluk)].

19 to 21. (Rules for the summoning for meetings.)

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CHAPTER IV.—INSPECTIONS.

23. *Duty of the Union.*—The general union undertakes the duty of examining by its permanent inspectors at least once in two years, the societies adhering to it, and of inducing the removal of any defects which may be discovered thereby.

24. *Method.*—Examinations of societies shall be carried out according to the method prescribed by these articles. They should not be restricted to a mere arithmetical audit of the books and balance sheets; the inspector is specially charged to see that the administration is carried on in strict accordance with the spirit of the co-operative law, the articles, and the rules of the general union.

The inspectors have the right (section 61 of the co-operative law) to examine all the books and documents of the society (under examination), to ascertain the agreement of the cash balance with the accounts, and the presence (in the safe) of all securities, paper and goods shown in the books. The committee of supervision of the society under inspection must assist thereat.

25. *Report of inspection.*—A report in duplicate shall be drawn up of each such examination, and signed by the inspector, by the committee of supervision of the society examined, by its directors, and by the cashier. One copy is to be sent to the society examined to be placed before the next general meeting, the other to the chairman of the general union for examination and for such further steps as may be needed for the removal of defects.

26. *Certificate by inspector.*—The inspector must grant a certificate of any examination which has been held according to the rules, and this shall be forwarded by the directors to the proper Court.*

27. The inspector is entitled to be present at the general meeting of the society examined and to speak thereat.

28. In special cases, and particularly in case of grave breaches of duty by one or more of the administrative organs, so that the status of the society or the reputation of the union is endangered, the inspector has the right, without delay and in accordance with the articles, to convene an (extraordinary) general meeting and to obtain thereat new appointments (of directors, &c.) irrespective of the lawful claims of the society against the administrative agents. In such cases the inspector must at once report his action to the chairman of the general union.

29. *Extraordinary examinations.*—Upon the opinion of the union chairman extraordinary examinations may be, and, upon the request of the director of the Agricultural Central bank, shall be instituted, and the societies whose affairs are examined shall be bound to pay the costs.

30. The appointment of examiners rests with the union chairman. In such appointments it is essential—

(*a*) that the candidates shall be of thoroughly good reputation in every respect (in jeder Beziehung durchaus unbescholten sind);
(*b*) that they shall not be members of any of the societies to be examined;
(*c*) that they shall have thoroughly grasped the co-operative idea as displayed in the Raiffeisen system;
(*d*) that they shall be physically capable of enduring the fatigues of rural inspections.

The final training of the candidates shall take place under the supervision of the union chairman and before being sent on independent inspections they should have made a series of such examinations under an experienced inspector until they have proved themselves thoroughly capable.

Their final appointment shall be made only after a practical and thorough examination by the union chairman.

31. The union chairman may appoint chief inspectors for supervising and controlling the inspectors.

CHAPTER V.

32. Complaints by adherent societies shall be disposed of by the general council of the union, and, in the second instance by the general meeting.

ARTICLES OF THE AGRICULTURAL CENTRAL CREDIT BANK, NEUWIED (RAIFFEISEN).†

CHAPTER I.—FOUNDATION AND OBJECT.

1. A joint stock society under the name of 'Agricultural central credit bank' is hereby founded with the following articles.

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* *See* sections 10 and 61 of the co-operative law translated elsewhere.

† This is intended as a central bank for the benefit of all societies which accept the Raiffeisen principles of co-operative action. The members of this bank are societies, save only such individuals as are necessary for its due working; it is a joint stock association of societies for their respective financial support and mutual assistance: *see* Volume I, pages 152, 153.

2. Its object is banking and credit business with preferential consideration for agriculturists.

3. Its head-quarters shall be Neuwied.

Chapter II.—Capital, Shares and Shareholders.

1. The capital of the bank shall be £25,000, divided into 500 shares, personal (auf den Namen lautend), and each of £50.

2. The capital may be increased by resolution of the general meeting.

3. The shares shall be made out in definite names and shall be signed by two members of the committee of supervision and by one of the directors. They shall be provided with interest coupons.

Every claim on a dividend coupon is extinguished, when such dividend has not been drawn within four years from its due date. Any lapsed dividends shall be credited to the reserve.

4. The following alone will be admitted as shareholders, viz., persons who belong to the board of directors and committee of supervision, and co-operative credit unions—

(*a*) which * are constituted under the form of unlimited liability;

(*b*) which by suitable arrangements endeavour to better the condition of their members both morally and materially;

(*c*) which only accept members, whatever their livelihood, from within a defined and very narrow area, so that no member can belong to more than one society;

(*d*) which demand no entrance fee, and, so far as the law permits, have no business shares,† or only admit one share for each member, and which grant on such share no higher dividend than the interest demanded from borrowers;

(*e*) which grant no remuneration to any of these functionaries except the cashier, but only repay expenses out of pocket;

(*f*) which carry all net profits to an indivisible and joint reserve;

(*g*) which accept and attend to the instructions issued by the General Union ‡ for management and book-keeping, submit to audit by the (inspectors of the) General Union, and permit the examinations instituted by the same.

Shareholders must enter on the bank's share-register their names, addresses, and the number of shares which they take.

Transfer of shares to persons and societies described above may be made by simple endorsement with the previous consent of the board of directors: such transfer is noted in the register.

5. Ten per cent. of the share amounts shall be paid down and the rest by instalments of at most 10 per cent.: provisional scrip to be issued till complete payment, but the holder has all the rights of a full shareholder: 6 per cent. interest is charged on arrears and a fine of 10 per cent. of the amount of such arrears.

6. (Rule relating to cancelment of shares.)

Chapter III.—Organization and Management.

1. The organs of administration are, the general meeting, the committee of supervision, and the board of directors.

Their composition is as follows:—

(*a*) The general meeting consists of the shareholders (Chapter II, 4); all shareholders are entitled to take part therein, each having one vote. Societies taking part in the meeting exercise their right of vote by their lawful representatives.

Every shareholder can be represented by another duly authorized shareholder; such authorization must be in writing. No person other than a shareholder may be appointed as proxy.

(*b*) The committee of supervision consists of nine members. The number may be increased by the general meeting, but so that the number may be divisible by three. It is appointed for three years: each year one-third retire; during the first two years the retiring members are chosen by lot. Should any member die or otherwise retire, the committee must make up the member until the next general meeting at which an election is held.

The committee annually chooses one of its members as president and two others as deputies of the same.

(*c*) The board of directors consists of a managing director and a cashier, together with a deputy of the first named, and two members.

2. The bank may establish branches and agencies. A resolution of the committee of supervision is necessary for this.

(3, 4, 5 and 6 relate to the convocation of meetings, to elections, to persons entitled to sign for the bank, and to the keeping of minute books.)

Chapter IV.—General Meeting.

1. Ordinary meetings are annual: extraordinary meetings are held when summoned by the directors, by the committee of supervision, or by at least one-tenth of the members.

2. The list of subjects is settled by the managing director and the president of the committee, the opinion of the latter prevailing in case of disagreement.

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* These conditions (*a*) to (*g*) must all be fulfilled by societies seeking admission as shareholders; it is not meant that a society which merely satisfies any one of the conditions is admissible. The conditions in question are the main principles of the Raiffeisen societies.

† Under the new law of 1889 this condition requires modification: *see* the corresponding rules in the articles of the General Union.

‡ *See* translation of the articles of the General Union (General-Anwaltschafts Verband) *supra*. This originally formed a section of this bank, but was separated and formed into a new society subsequent to the passing of the law of 1st May 1889: *see* sections 51–62 on pages 295–96 of Vol. I, and the law itself translated *supra*.

Every shareholder is entitled to propose a subject for discussion. (Only subjects proposed in due time and proposals for a subsequent meeting may be voted upon, though others may be discussed.)

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7. For the audit of the annual accounts settled by the committee of supervision with a view to acceptance (by the general meeting) and for the examination of the management, the general meeting must annually appoint for the following year an accounts committee of not less than three persons who will elect their chairman and apportion the work between them.

On the report of the accounts committee and of the chairman of the committee of supervision, and after hearing the report of the directors, the general meeting will, if it sees no objection, accept the accounts.

The members of the accounts committee have a claim to the refund of any expenses out of pocket.

Chapter V.—Committee of Supervision.

1. The committee of supervision watches over the conduct of business in all branches; it can acquaint itself with the progress of all transactions, may at any time inspect the books and documents, and examine the cash balance.

It should summon a general meeting whenever required by the interests of the bank.

2. The prior consent of the committee is required in the following matters:—

(*a*) for the granting of cash credits;
(*b*) for investments, &c., in mortgages;
(*c*) for the fixing of the rates of interest and commission;
(*d*) for the settlement of the dividend and of the allotment to the reserve;
(*e*) for the investment at interest of the reserve and of un-employed funds;

(and in various other duties such as the establishment of branches and agencies, the management and sale of immovables, the budget, and the initiation of coercive process for collecting debts, &c. They also have the other duties of directors in an English company. They may form amongst themselves committees either temporary or permanent for the better carrying out of their duties; and for the general superintendence of affairs especially as regards investments, the opening of cash credits, &c., and for the preliminary settlement of the balance sheet and accounts of the year, there must be a standing committee of at least three persons. This committee must at least twice in the year make special (ausser-gewöhnliche) examinations of the affairs and accounts, besides the regular monthly audit by one of their members or by some expert appointed by them; a report of each such audit must be made to the committee of supervision.

A meeting of the committee of supervision is only valid, if more than half the members are present: the suspension, &c., of directors, and decisions to establish branches and agencies require the votes of a majority of the whole committee.)

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9. The members of the committee of supervision serve gratuitously, but may claim the refund of any payments out of pocket.

Chapter VI.—Directors and Staff.

1. The directors are charged with the management of the business. They represent the company judicially and extra-judicially in accordance with the code of commerce, the present articles, and the business rules.

All speculation in movables or immovables is absolutely forbidden. (The duties of the board and of the managing director are laid down in detail, but do not need translation.)

Chapter VII relates to the accounts which must be kept by double entry: full details are given for the preparation of a balance sheet which shall show the exact value of the assets and liabilities, the assets being carefully rated at their *actual* value.

Chapter VIII.—Operations.

1. The bank proposes as its primary object to satisfy, as far as possible, the needs of the agricultural population for credit, and to provide for their savings a secure place of investment. The undertaking is for the common benefit, and not with the object of gain. All speculation, and particularly all business with which any probability of risk is connected, is expressly forbidden.

2. The funds of the central bank, outside of the own capital, shall be obtained—

(*a*) by the issue of irredeemable * (unkündbar) debentures; the committee of supervision is empowered to obtain, through the directors, the consent of Government,† as soon as the proper time shall have arrived;
(*b*) from deposits, especially those of long term;
(*c*) from commission, excess interest,‡ and casual profits.

3. The funds of the bank shall be employed—

(*a*) in loans to the registered co-operative societies which are shareholders of the bank;
(*b*) in bills of exchange and loans on pledge are the principles of the National bank;
(*c*) on mortgage business;
(*d*) on the management of immovables where required in the interests of the bank.

Sums not applied to the above purposes shall be employed;

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* *I.e.*, not redeemable at the pleasure of the holder of the debentures, but only within or after a fixed period, or at the pleasure of the bank within such period.

† By German law, the express consent of Government is required before a bank can issue debentures, at all events of the land mortgage class.

‡ *I.e.*, general profits, viz., the difference between the interest received and the interest paid.

(*e*) in the purchase of bonds to bearer, issued by the Empire or by any of the German States, or any paper of corporations or communes issued under the authority of such state and of which the interest is guaranteed.

The funds derived from excess interest, commission, and casual profits shall be employed—

(*f*) in meeting the expenses of administration;

(*g*) in paying a dividend to the shareholders. The committee of supervision shall, after deducting the amount assigned to the reserve by the next paragraph (*h*), declare from the profits an annual dividend. This shall be calculated upon the amount actually paid in upon the shares, and shall never exceed the rate of interest paid by the shareholders for loans obtained by them;

(*h*) in accumulating a reserve. From the net profits * shall first of all be deducted a sum of 20 per cent. for the reserve. From the remainder shall be paid the dividend calculated as in paragraph (*g*); any surplus shall go to the reserve. The object of the reserve shall be the recoupment of losses of all kinds. At the dissolution of the bank the reserve may be divided among the shareholders.

CHAPTER IX.—MISCELLANEOUS.

1. Complaints by the shareholders are decided by the committee of supervision, and in the second resort by the general meeting.

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3. At least two-thirds of the shareholders must give their votes in the affirmative before the bank can be voluntarily dissolved.

LAW FOR THE ESTABLISHMENT OF PUBLIC LOAN OFFICES; ALSACE-LORRAINE (18TH JUNE 1887).†

1. The Government is authorized, upon request of any communal council, to establish in the commune (Gemeinde) a public loan office. Upon a resolution of the communal council the chief tax-payers are bound to co-operate according to the terms of section 42 of the law of 18th July 1837 for the administration of communes.

The business area of such loan office may be either a single commune, or the neighbouring tracts of one or more communes.

2. The loan offices may grant loans at interest to agriculturists and tradesmen (Gewerbetreibende) upon security. The borrower must always, and the surety must, as a rule, be a resident within the business area of an office.

3. The loans may extend to a sum of 1,000 marks (£50), and for a period of three years at most. But with the consent of the supervising authority (s. 19) loans may exceptionally be granted up to 2,000 marks, and for a period of five years.

The rate of interest shall not exceed 5 per cent.

The borrower is at liberty at any time to repay the borrowed amount in whole or in part, provided that each instalment shall not be less than five marks.

4. The first cost of the establishment of a loan office shall be provided from the funds entered for such purpose in the 'Landeshaushalt' budget.‡

5. Loan offices will, on their application, be provided with working funds by the Government treasury at an § interest not exceeding 4 per cent., and within a total sum fixed by the budget.

The Government shall fix the maximum for grants to be made to single loan offices from the amount at their disposal, and will issue the necessary instructions for communications between the deposit office and the loan office.

6. The loan office may in their own names establish claims, enter into contracts (or incur obligations) and sue or be sued (*i.e.*, they are corporate bodies).

The provisions of the general German Code of Commerce regarding registration in the commercial register and its legal consequences, are not applicable to these offices.

They shall enjoy the same privileges as the exchequer in the matter both of taxes and cesses, and of costs in proceedings before the courts.

7. The internal management and the business arrangements shall be regulated by articles drawn up by communal councillors appointed for the purpose, and confirmed by the Government.

The articles must contain rules on the following points:—

(1) the election of the directors (section 8), where the business area comprises more than one commune;

(2) the meetings of the directors, the periods for which the members shall exercise their functions, their resolutions, their methods of voting and of issuing orders, and the representation of members in case of temporary or continuous absence;

(3) the powers and duties of the directors, of the chairman and of the cashier, and the measures to be taken against negligent directors;

(4) the minimum amount to be granted on loan;

(5) the mode in which demands for loans are to be made;

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* *I.e.*, the excess interest, &c., less the expenses of administration.

† *See* Vol. I, pages 156–57. According to Mr. Wolff these carefully thought-out and privileged institutions have been of little service or development ("the practical effect proved next to *nil*"), while the private Raiffeisen Credit Unions are rapidly developing.

‡ The funds in question are public funds.

§ Landesdepositenverwaltung. This corresponds to the French 'caisse des depôts et consignations,' or to the National Debt Commissioners of the English Treasury.

(6) the circumstances under which such demands may be refused.
The benefits of a loan office shall especially be refused in cases where any loss has been incurred by the office or by a surety on a previous loan to the candidate, or where he has obtained a former loan under false pretences;
(7) the general stipulations of loan contracts;
(8) the methods and forms of accounts, and the principles to be observed in preparing the balance sheet, especially in the matter of treating doubtful claims;
(9) the security to be given by cashiers;
(10) the amount and investment of the reserve (section 16);
(11) the period mentioned in the last part of section 16 and the proportion in which the division of any surplus shall be made for the benefit of the several communes within the business area;
(12) the circumstances under which the articles may be modified, under which single communes may withdraw from the union in cases where the business area comprises several communes, and under which the office may be closed.

8. The board of directors shall consist of a chairman and four members.
The chairman shall be appointed by the supervising authority (section 19): the members shall be elected. If the business area comprises only one commune or parts of one commune, the communal council shall arrange for the election; if of several communes, then the several councils or their deputies according to provisions expressly laid down in the articles of the office.
The chairman and members must be residents in the business area, subjects of the German Empire, and in possession of their full civil rights. On the loss of such conditions they lose their position on the board.
The supervising authority will appoint one of the members as deputy chairman.

9. The office is represented judicially and extra-judicially by the board. Such representation extends also to such affairs and court business as by law require a special authorization. In matters which the board have settled in the name of the office within the limits of their authority as laid down in the law and in the articles, the office is both bound and justified by such action.

10. The office of member of the board is honorary (Ehrenamt). The articles may, however, allow actual expenses out of pocket.
The accounts and cash are looked after by a cashier appointed by the board and confirmed by the supervising authority. He may be granted a fixed stipend from the funds of the office, but payment by a proportion of the profits (Gewährung von Tantiemen) is not permissible.
The cashier may not be a member of the board. The tax collector and accountant (monigar and kurnam) of the commune are bound to undertake the duty of cashier to the office if offered to them.

* * * * *

12. The board is authorized in accordance with rules to be issued by Government—
(1) to claim information and assistance from public officers and authorities, and especially to demand their co-operation in the receiving and giving opinion on applications for loans;
(2) to assign the care of local cash affairs to revenue officers. Officers entrusted with the cash affairs of the office are bound to follow the business regulations of the directors. But the directors have no disciplinary authority over such officers.

* * * * *

13. The board and all those who are occupied in the transactions of the office are bound to keep silence on all private matters which come to their knowledge in the exercise of their functions.

14. Any claim of the loan office shall, of right, be repayable in full—
(1) if the debtor without the previous consent of the board of directors applies the loan amount to any other purpose than that specified in the agreement;
(2) if the debtor is in arrears for more than one month as regards any stipulated payment;
(3) if any coercive process is instituted against him or his surety:
(4) if proceedings in bankruptcy are opened against him or a surety;
(5) if the debtor without permission of the board borrows money from any person who makes a trade of money lending.

15. The office can, without prejudice to its rights, proceed by way of judicial execution to the collection of its loans with interest and costs according to the rules in force for the collection by coercive process of the public revenue. For the above purpose sections 708, 709, and 712 of the Civil Procedure Code shall be applicable.

16. To cover any losses a reserve fund, to the amount of at least 10 per cent. of the liabilities, shall be accumulated from the net profits. Should such reserve exceed the amount fixed by the articles, the communes within the business area of the office are entitled to any surplus disclosed at the end of the year, for investment in any matters of public utility though not expressly laid down in the law. Where the excess has accrued by reason of a decrease in the liabilities of the office such assignment thereof should take place only on the expiry of a term of years to be fixed by the articles of the office.

17. If the means of an office do not suffice to cover its liabilities, the communes within the business area of the office must make up the deficiency shown by the balance sheet of the year by a *pro rata* contribution proportionate to the proceeds of their respective tax collections. Such contribution shall not exceed 5 per cent. of these collections, and shall be considered as an obligatory communal expenditure in the sense of section 30 of the law of 18th July 1837, regarding communal administration, and accounted for as extraordinary expenses.

18. An office which is permanently unable to meet its engagements can be dissolved by Government. In such dissolution the winding up of the business shall be carried out by the board of

directors, or, in default, by the supervising authority. For a period of four years from the expiry of the business year in which the supervising authority winds up affairs, the communes of the business area of the office shall be liable to make the contributions mentioned in section 17 *supra*.

19. The supervision of the loan offices rests with the Tahsildar (Kreisdirektor) who watches over the carrying out of the regulations provided in the law and in the articles. His approbation is necessary to the resolutions of the board in regard to the salary to be given to the cashier and to the security to be taken from him. He verifies the cash balances and the annual accounts, and grants a certificate of correctness (Decharge). Before the grant of this certificate the balance sheet is to be communicated to the councils of the respective communes.

The confirmation of Government is necessary to the resolutions of the board in the matter of borrowing funds, whenever such borrowing is made otherwise than from the treasury.

An office is bound at any time, upon demand by the Tahsildar or his deputies, to submit for their inspection the affairs, books and accounts of the office, and to permit the verification of its cash balances. At such verification the presence of the mayor of the commune in which the office is situated must be invited.

The Tahsildar may require meetings of the directors to be convened, and in case such demand is not complied with, he can himself convoke such meetings. In meetings convoked upon his motion, he or his deputy can take the chair.

Should the board refuse to carry out its duties as required by the law or by the articles, its members will be deprived of their office. The Tahsildar must in that case either personally or by his representative take over the powers and duties of the board at the expense of the office, and arrange at once for the appointment of new directors.

20. For the official year 1887–88 the amount mentioned in section 5, paragraph 1, is fixed at £25,000.

21. The Government will issue regulations * for the carrying out of the law.

LAW OF 28TH JANUARY 1894 RELATING TO THE PLEDGE OF CATTLE (CANTON THURGAU, SWITZERLAND). †

1. The pledging of cattle (remaining) in the possession of a debtor is permitted in favour of Cattle Loan offices established by communes and approved by the authorities (Regierungsrathe); *see* section 210 of the Federal law of contract, dated 14th June 1881.‡

2. For the validity of such pledges of cattle an agreement drawn up in writing is necessary: the agreement must mention (*a*) the time and place of the agreement, (*b*) the amount advanced, (*c*) the terms of repayment, (*d*) the exact description of each head of cattle according to species, colour and age.

3. The deed of agreement is to be handed in to the executive officer of the taluk (circle, Kreis) in which the pledgor resides. Such official shall forthwith enter it in the register kept by him for mortgages of cattle, shall endorse upon it its register number and a certificate of its registration, and shall then hand it over to the pledgee.

Every prior pledge (of the same cattle) shall be noted by the executive officer both in the register and on the document.§

4. A charge of one franc is payable (as registration fee) to the executive officer on each occasion when cattle are first pledged.

5. A pledge (mortgage claim, Pfandrecht) becomes valid (is acquired, erworben) upon the registration of the document in the books of the executive officer, but without prejudice to the claims of any prior judgment-creditor so far as regards the cattle which, at the time of the execution of the document, are in the possession of the debtor.

A valid claim is also acquired by the lending office when, at the time the claim originates, the office in good faith believes the pledgor to be the owner, even though in fact he is only the possessor, provided that the cattle are neither stolen nor lost property.

6. Should another head of cattle be lawfully pledged (to the Loan office) in substitution for the one originally pledged, an entry (to that effect) may, even without the consent of the creditor-office, be made in the document and in the registration books; for such entry a fee of half a franc (50 Rappen) is payable.

In other cases respecting the alienation of pledged cattle and the rights of third parties (purchasers), the provisions of section 96 of the Federal law of Debt and Bankruptcy (11th April 1889) and of section 57 of the Cantonal law of 3rd May 1891 are applicable.

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* These have unfortunately not been hitherto obtained.

† This law repeals that of 1851 mentioned in Vol. I, pp. 161, 162.

‡ The law of mortgage in continental Europe invariably forbids the pledge of movables without actual delivery of the goods by the pledger. Of late years several countries have specially legalized pledge without delivery, as in English bills of sale, in favour—usually—of banks or societies lending to agriculturists; *see supra s. v.* 'Belgian law regarding Agricultural credit, 1894,' and the Italian law of 23rd January 1887.

The Federal law of Switzerland, section 210, is as follows:—

"210. The mortgage of movables or of paper payable to bearer takes place only by actual pledge (Faustpfand). Such pledge is effected by the delivery of the goods to the pledgee or to his representative. Such delivery shall not be complete so long as the goods remain in the custody of the pledgor.

"Nevertheless the State laws of the several cantons may permit the pledge *of cattle* by mere entry in the public registration books."

The law of Canton Thurgau is that given in the text and is a mere development of that of 1851, which permitted, in favour of Cattle Loan offices, the pledge without delivery of cattle purchased by means of loans from such offices, and only in security for such loans. It will be noticed that this exception to the general law is made only in favour of approved communal Cattle Loan offices, and does not apply to any private creditors or to other Loan societies.

§ Presumably this refers only to pledges still outstanding against the same cattle.

ARTICLES OF A COMMUNAL LOAN SOCIETY FORMED FOR THE PURCHASE OF CATTLE (CANTON THURGAU, SWITZERLAND).*

1. *Object.*—A cattle loan society shall be formed in the commune (village) of with the object of facilitating the purchase of cattle by the inhabitants of the village, and of thus, on the one hand, assisting agriculture, and, on the other, presenting the injurious effects of usury as practised in cattle dealing.

2. *Resources.*—With this object the inhabitants of the commune will establish a fund either from their own resources † or by means of a loan contracted upon their responsibility, the maximum amount of which shall be fixed by the administrative committee. Any loan so contracted must bear the lowest possible rate of interest.

3. *Administration.*—The administration of the fund is entrusted to a committee appointed by ballot by the inhabitants of the commune. The committee will choose from among its members a manager who will have to give security in a sum to be settled by the commune.

4. The duties of the committee will consist (1) in the maintenance of a general supervision over the progress of the institution, (2) in the granting of loans, (3) in making to the commune all such reports and proposals as may seem desirable in the interests of the institution.

5. The manager shall have the immediate charge of the funds, shall settle the details of the loans, with the conditions of and security for the repayment thereof, and shall keep the books; every year, at a date to be fixed by the commune, he shall give account of his management.

6. The annual accounts shall be examined and passed on the same principles as those laid down for the management of other communal resources.

7. The salary of the manager should he demand any, or should it appear right to pay him, shall be determined from time to time by the communal assembly, consideration being given to the amount of business: the salary shall, if possible, be paid from the resources of the institution itself.‡

8. *Employment of the funds.*—Any inhabitant of the commune may obtain a loan from the funds of the society for the purpose of buying cattle; such loan may not exceed £12 per head of cattle. This maximum may be increased by a decision of the inhabitants upon the report and proposal of the administrative committee.

9. The borrower must furnish proper security for the amount lent; such security may be personal or otherwise. In default of other security the repayment of the loan may be assured by taking a mortgage, according to the provisions of the law, § of the cattle bought with the loan. It shall be permissible to the administrative committee to send one of its members, or the borrower's surety, or some other trustworthy person, with the borrower to be present at the purchase of the cattle; the expenses of such person shall be paid by the borrower. If the committee consider that the borrower is sufficiently experienced in the matter of cattle purchase, the amount (of the loan) may be handed over to him without further formalities.

The committee must watch over the due maintenance of the securities furnished, and the borrower is bound at once to insure the cattle with the Cattle Insurance Society.

10. The interest on loans must be paid annually at Martinmas; when repayments of the principal are made, interest to date must be simultaneously paid. Interest shall be 4½ per cent. per annum, and shall be payable in full for the whole quarter in which the loan is made and for that in which it is repaid.

11. The repayment of the loan shall forthwith be claimable should the borrower sell the cattle mortgaged (to the society) as security, or he should he make purchases on credit.‖ Should the borrower desire to sell any of the cattle charged, he must notify his sureties and the manager of the society, failing which he will be legally liable.

12. The expenses of effecting a loan, *e.g.*, the costs of the sureties, of the security bond, of registration, &c., shall be borne by the borrower. The manager, if he himself is not the cattle inspector, must give all necessary information to the head of the commune in order that all proper steps may be taken by the latter.¶

13. *Reserve.*—The net profits shall be credited to a reserve, which shall be employed to cover any losses which may occur. Any losses caused by negligent management shall be borne by the administrative committee, who may in turn proceed against the member at fault.

The inhabitants of a commune cannot be called upon to make any payments in place of the society until all the resources mentioned in this article shall have been exhausted.

The inhabitants shall (in such case) contribute in equal shares to cover any deficit.

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* *See* Vol. I, pp. 161–2.

† In Europe the commune is a corporate body with its own property, resources, and powers; it is the lowest administrative unit in local government, and is managed, usually, by a council which meets only occasionally (general meeting) and by a standing committee (board of directors). In Switzerland the 'communal assembly' appears, as in these articles, to be a meeting of all the capable inhabitants of a village, so that their decisions are absolutely popular decisions; throughout these articles the words used are 'the inhabitants of the commune.'

The re-habilitation of the commune, or village system, in this Presidency, seems a desirable step in administrative progress.

‡ That is, the salary must be paid, if possible, from the profits of the loan society and not from communal funds proper.

§ The cantonal law of Thurgau and the Federal law of Switzerland enact special privilleges for the encouragement of cattle-breeding; the Federal law grants permission, contrary to the general law of pledge, to mortgage cattle *without delivery* 'by simple entry on the public registers:' the cantonal law restricts this privilege to cattle bought with the proceeds of a loan granted by the cattle society, and for the purpose of securing the repayment of such loan.

‖ The society declines, for its own safety, to continue its dealings with a person who is elsewhere running into debt. The provision is stringent, and obviously based on experience; on the matter of indebtedness and bankruptcies in certain Swiss cantons, *see* Vol. I, pp. 43, 44.

¶ This clause relates to the provisions of the law regarding cattle and cattle breeding; *see* translation *supra*.

14. *Duration.*—The society shall subsist until the communal assembly decides to dissolve it. For such decision the consent of two-thirds of those villagers present in an ordinary communal assembly shall be necessary.

15. The present articles may at any time be modified by the decision of two-thirds of those present at a regular (communal) assembly.

EXTRACTS FROM THE ITALIAN CODE OF COMMERCE (1882), RELATIVE TO CO-OPERATIVE SOCIETIES.*

* * * * *

219. "Co operative societies are subject to the provisions which regulate the class of society of "which they assume the character, as defined in article 76, with due regard to the following special "provisions."

(*Note* 1.—Article 76 divides commercial societies into three classes—

(1) "Società in nome collettivo," *i.e.*, based on unlimited liability;

(2) "Società in accomandita," in which the liability, of some members is unlimited, while that of others is limited to a fixed sum;

(3) "Società anonime," in which the liability of each member is limited to the amount of capital subscribed by him.)

220. "Co-operative societies must be constituted by a public deed."

(*Note* 2.—*I.e.*, a notarial act.)

"The deed of constitution, besides those particulars required, in compliance with articles 88 and "89, according to the respective class of association to which the society belongs, must further state.

(1) "The conditions of the admission of new members, and the manner in which and time when they are to contribute their subscriptions as members;

(2) "The conditions required for the withdrawal and the expulsion of members;

(3) "The formalities to be observed in summoning general meetings, and the public journals "appointed for the publication of the acts of the society."

(*Note* 3.—Articles 88 and 89 contain those particulars as to the name, seat, object, organization, and administration of the associations mentioned in Note 1, which the code requires to be stated in their respective constitutions or acts of incorporation.)

221. "Co-operative societies are invariably subject to the provisions affecting societies with limited "liability ('Società Anonime'), so far as regards the publication of their constitutions and of any sub-"sequent amendments thereof, and also in respect to the duties and responsibility of their directors "('Amministratori'). The publications in question are made without charge."

(*Note* 4.—The regulations as to these publications are to be found in articles 91, 92, 94, 95 and 96 of the Code. Those as to the duties of directors are contained in articles 139 to 153.)

"The directors must be elected from among the members, and may, by the Act of Constitution, be "exempted from the obligation of depositing caution-money.

"Those provisions which relate to the general meetings, balance sheet, committees of control "('sindaci'), and liquidation of joint-stock associations ('Società per Azioni'), are equally applicable "to co-operative societies, so far as the following articles or the Act of Constitution do not provide "otherwise.

"The quality of 'co-operative,' as well as the kind of society, must be expressly stated in all the "documents enumerated in article 104."

(*Note* 5.—*I.e.*, in every contract entered into by the society, and in every deed, letter, publication, or notice referring to it.)

222. "The provisions of the first part of article 131, and of the first paragraph of article 146, do "not apply to co-operative societies."

(*Note* 6.—The portion of article 131, here referred to, makes the subscription of the entire capital and the payment by every member of three-tenths of the portion subscribed by him an indispensable preliminary condition to the constitution of any society, and forbids the issue of any new shares before the old ones are entirely paid up.

The first paragraph of article 146 requires the directors of a society, whenever they discover the capital to have diminished by one-third, to summon the members and ascertain whether they intend to make up the capital to its former amount, limit it to the amount remaining, or dissolve the society.)

"The Act of Constitution of these societies may omit to comply with the provisions of article 144, "and with those of section No. 3 in article 165."

(*Note* 7.—Article 144 precludes the directors of a society from purchasing its shares on the society's account without the authorisation of the general assembly of the members, and unless such purchase is effected by means of sums taken from profits regularly ascertained, and the shares in question are entirely paid up. It also states that in no case can the directors make any advance of money upon the shares.

Article 165, section No. 3, provides that the share certificates ("Titoli delle Azioni") shall state the amount of the society's capital, and the number and total value of its shares.)

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* The sections here translated are merely those which relate solely to co-operative societies. But, as stated in section 219, these societies are also subject to the provisions which regulate the class of society of which they assume the character: these are numerous and will be found in full in the chapter on the "Law of societies in general," in this appendix.

The translation is taken from Commercial No. 20 of 1886.

223. "The directors of co-operative societies must keep the register of members in accordance with "the provisions of article 140, and must further state therein :

1. "The date of the admission and that of the withdrawal or expulsion of every member.

2. "An account of the sums paid in and withdrawn by each member.

"They must present, at the end of every quarter, to the office of the tribunal of commerce, within "whose jurisdiction the seat of the society is established, a statement of the members whose liability is "unlimited, admitted into, withdrawn from, and remaining in the society in the course of the quarter, "giving their names, surnames and domiciles.

"This statement must be signed by the directors and kept by the clerk of the court, open to the "free inspection of all comers."

(*Note* 8.—Article 140 provides for the keeping of a register of members by the directors of all societies, in which shall be entered the payments made by them on account of the original capital subscribed by them, and of any subsequent increase of capital, as well as the declarations required by the law, in the event of the transfer of personal shares ("Azioni Nominative"), whether 'inter vivos' or on the death of the owner.)

224. "No person may hold in a co-operative society a larger proportion of capital ('quota sociale') "than 5,000 fr., or a number of shares exceeding that amount in nominal value.

"The nominal value of each share may not exceed the sum of 100 fr.

"The shares are always personal ('nominative'), and may not be transferred until they are wholly "paid up, nor without the transfer being authorised by the assembly (of members), or by the Board of "Directors, according to the provisions of the constitution of the society."

225. "Members may not be represented by proxy at the general meetings, except in cases of lawful "impediment provided for in the act of incorporation or constitution of the society.

"Each member has but a single vote whatever the number of shares held by him.

"No proxy may represent at the same meeting more than one member besides his own interest, if "he be himself a member."

226. "The admission of new members is effected by their being entered in the register of members, "either personally or through a special representative.

"Such entry must be authenticated by two members who are not directors.

"If the constitution of the society authorises members to withdraw from it, the declaration of "withdrawal must be entered by the member withdrawing in the register of members, or notified to the "society in due form through a sheriff's officer ('per alto d' usciere'). It shall only take effect at the "end of the current year of the society, provided it be made before the beginning of the last quarter of "that year. If made later, the member remains bound for the succeeding year.

"The expulsion of members can only take place for the reasons laid down by the law, or by the "constitution of the society. It must be discussed either by a general meeting or by the Board of "Directors, according to the provisions of the said constitution."

227. "In regard to transactions concluded by the society previous to the day on which the "withdrawal or expulsion of a member takes effect, or the day on which the transfer of shares is entered "in the register, the departing member remains bound towards third parties for two years from the said "day, within the limits of his liability as laid down in the act of incorporation."

228. "The acts of incorporation of co-operative societies and the acts of withdrawal and admission "of their members are exempted from the usual registration and stamp dues."

MODEL ARTICLES* OF A POPULAR CO-OPERATIVE BANK (ITALY).

Preliminary.

The bank . . . . declares that it will be subject to the provisions of the Code of Commerce relating to co-operative associations with limited liability ("Società Co-operative Anonime"), and that it will comply therewith in accordance with the accompanying act of constitution.

TITLE I.—CONSTITUTION, OBJECT, DURATION AND SEAT OF THE ASSOCIATION.

1. A Co-operative Credit Association with limited liability is hereby established at . . . . under the name of the People's Co-operative Bank of . . . .

The name of People's Co-operative Banks and the qualification of limited ("Società Anonima") must be expressed in all contracts which it may enter into, as well as in all letters, publications, or notices referring to it. (Commercial Code, article 104.)

2. Its object is to provide credit to its members by means of co-operation and saving.

3. It is established for a period of 99 years from the date of its constitution, with power to prolong its existence.

4. It has its domicile at . . . . in the place where its office is established. It may institute branch offices and agencies within the territory of the province, and the adjacent provinces, by decision of the general assembly of members.

The regulations for the institution and management of the branches shall be framed with a view to facilitate their conversion into independent banks.

TITLE II.—CAPITAL OF THE ASSOCIATION.

5. The capital of the association shall consist of—

(*a*) The shares subscribed by the members, the value of each share being — lire;

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* Extract from Commercial No. 42 of 1887. These are the articles of a popular bank of the system of Signor Luzzatti, and have been translated for the above Foreign office report from Signor Levi's 'Manual for Popular Banks.'

(*b*) The reserve fund;
(*c*) Such special funds as may be created for particular purposes.

Although the Commercial Code fixes 100 lire as the maximum limit of nominal value for the shares of co-operative societies, the association of Italian People's Banks considers that they ought not to exceed 50 lire.

6. The bank may, in order to extend its operations, contract loans and accept deposits of money, whether interest-bearing or without interest, on the security of its social capital.

Title III.—Of Members.

7. Any person desiring to join the association must present a written application to the board of directors, stating his willingness to submit to the obligations resulting from the constitution, and from the bye-laws and decisions of the association.

In cases of the transfer of shares from one person to another the application must be made by the heir or acquirer, even though he may be already a member.

The application of any person not yet admitted to membership must be countersigned by two members, as witnesses to the character of the applicant.

8. Co-operative mutual benefit societies and corporate bodies may be enrolled in the association with the same rights and obligations as any other member, but their delegates shall not be eligible to hold office in the association.

If any banks should think proper to permit such representatives to hold office, they ought not to be any persons except managers or directors in the societies or corporate bodies in question.

9. Persons under legal or mental disability ("interdetti, inabilitate") and bankrupts are excluded from the association; nor can they own any shares upon transfer, unless in consequence of an adjudication by a court of law. Such adjudication, however, shall not entitle them to any rights beyond participation in the profits.

Any shares which may come to the persons in question, either by inheritance or through decision of a court of law, must be disposed of in the manner laid down in article 15, paragraph 2.

Although minors are equally disqualified from having direct transactions with the bank, yet as many of the banks have already minors enrolled among their members, and as it may be at once an advantage and a compliment to the banks that the purchase of their shares should be deemed a safe investment for money belonging to minors, it has been thought best not to provide for their exclusion, but to leave the question for the banks to settle at their own discretion.

10. The decision as to the acceptance or rejection of the applications, whether of candidates for admission or of members wishing to acquire fresh shares, shall rest with the board of directors. An appeal shall be allowed from their decisions to the committee of arbitrators.

11. If the application be granted, the new member, or the member acquiring fresh shares, must enter his name in the register of members, in accordance with article 226 of the Code of Commerce.

12. The new member is bound—
(1) To pay within three months, or by instalments of—lire, the entrance fee of—lire.
(2) To acquire at least one share.
(3) To hold himself answerable to the full amount of the shares subscribed by him for all obligations assumed by the association.

The amount of the entrance fee should be proportionate to the value of the share, taking into account the amount of capital paid up, and of the reserve fund. For a share of 50 lire, for instance, it would be 3 lire.

13. A member acquiring not more than a single share may pay for it by successive monthly instalments of not less than — lire.

The amount of each monthly instalment should be proportionate to the value of the shares, and to the particular circumstances of the bank. Thus, in a large bank, or one established in a wealthy and populous centre, the instalments might be fixed at 2 lire; in other cases at one lire.

14. Each member is entitled—
(1) To obtain credit within the limits, and in the manner laid down by the constitution.
(2) To vote at the general meeting, provided he has paid his entrance fee and at least half of one share, and has been registered as a member of the association not less than three months.
(3) To a part in the capital and profits of the association proportionate to the amount of his shares.

15. The board of directors may not assign more than . . . . shares to any one member.

In respect of any shares in excess of this number, which any member may have acquired by inheritance or through adjudication by a court of law, he shall only be entitled to his share of the profits of the association, and must take measures to dispose of them within a term of two years. Should the member fail to fulfil this obligation, the association may suspend the payment of dividends due to him on the shares, and also cause the shares to be sold in the manner laid down in article 30, holding the sum realised at the owner's disposal.

The number of shares which may be held by a single member is also proportionate to the value of the shares. The Code (article 224) fixes the maximum value of each share at 100 lire, and of the total amount which any one member may hold at 5,000 lire; if the shares are only of 50 lire a piece, the maximum to be allowed to a single member should be 2,500 lire, or if the shares are inferior it should be reduced in proportion.

16. The board of directors may expel a member from the association—
(1) For being in arrears with the payment of three instalments of the share subscribed by him without sufficient excuse.
(2) If he shall have compelled the association to enter into judicial proceedings to force him to fulfil the obligation contracted by him with it.
(3) If he shall have incurred a criminal sentence for any offence or a police court sentence on account of an offence of bribery, forgery, theft or fraud.
(4) If he shall have committed an act considered dishonourable by the board.

An appeal shall be open from the board of directors to the committee of arbitration.

17. In the cases mentioned in paragraphs 2, 3, and 4 of the preceding article, the association is bound to refund to the member the value of his shares in accordance with the terms of article 24.

18. In the event of a member's death, the association may compel his heir to sell out, in the manner prescribed by article 15, the shares which he has inherited, unless he is already a member, or has applied to be entered as a member, and been accepted in accordance with the terms of article 10.

19. If a share be transmitted by inheritance to several persons, the association shall not be bound to register or recognise the transfer until the designation and admission (as a member) of a single owner.

Associations desirous of allowing the withdrawal of members may here insert the following articles:—

"Article . . . . Any member publicly declaring his intention of withdrawing from the association shall likewise cease to belong to it, upon complying with the provisions of the law, and if the directors consent thereto.

"The member withdrawing shall be repaid the principal of his shares, but not the amount assigned to the reserve fund. He may collect his profits, but must a part of the principal to meet the losses of the association: the profits and losses to be calculated according to the balance sheet for the year in which he withdraws.

"The permission to members to withdraw from the association with the amount of their shares is not free from danger, and small banks, or those which for special reasons consider such a permission likely to injure the bank, or endanger its existence, will not mention it in their constitutions."

(See articles 220, 226, and 227 of the Code of Commerce.)

20. The shares are nominative and personal; they may not be sold or pledged in any way without the consent of the board of directors.

The board may grant advances upon the security of the shares, which are pledged in favour of the association for all liabilities, of whatever kind, incurred by the member to the association.

But if the value of the shares owned by the member shall exceed the amount of the claims of the association against him, he may dispose of the surplus.

21. If a member fail to meet his obligations towards the association, the latter may cause his shares to be sold in the manner provided in article 39, and may even issue a duplicate certificate whenever the original share certificate shall not have been deposited in its hands.

22. A member is entitled to a share in the dividends, beginning from the quarter (reckoned according to the solar year) following that in which he shall have completed the payment of his share.

But instalments paid in under article 12 shall, as soon as they amount to one-fourth the value of a share, bear the highest rate of interest allowed by the bank on deposits placed in its care.

Such interest shall be deducted from the balance still due by the member upon the price of his share.

23. Upon full payment of the amount of his share, as well as of the entrance fee and any other expenses involved, the member shall receive a certificate representing the share, which shall state the amount of his participation in the patrimony of the association.

The provisions affecting the form of the certificate are laid down in articles 165 and 222 of the Commercial Code.

24. At the beginning of each year the board of directors shall determine the value of new shares in accordance with the amount of the capital subscribed and reserve fund.

Title IV.—Operations of the Association.

25. The association undertakes—

(*a*) The granting of loans and the discounting of bills of exchange, warrants, specifications of work undertaken, accounts (or bills for goods), orders of public departments, and treasury, provincial, and municipal bonds.

(*b*) The granting of loans upon trust ("Prestiti sull' onore").

(*c*) Operations of credit in behalf of agriculture.

(*d*) The granting of pecuniary aid on the security of public stocks.

(*e*) The opening of accounts current upon the guarantee of two or more persons in good standing.

(*f*) The receipt of deposits in cash.

(*g*) "Servizio di Cassa," *i.e.*, collections and payments, whether in behalf of members or of non-members.

(*h*) The receipt of valuables (securities) for safe keeping, or for the collection of the interest thereon.

(*i*) The management without charge of the funds belonging to other co-operative or mutual benefit associations.

The operations mentioned under the headings, (*a*), (*c*), and (*e*) can only be undertaken in behalf of members.

The more important banks may also open for their members accounts current upon guarantee of public securities. This is a perfectly safe operation, but was omitted from the present constitution, because it usually assumes a certain importance, and must, in order to be of any use, extend beyond the limits laid down for accounts current upon personal guarantee, and can therefore only be undertaken by banks which have attained to a certain standing and possess considerable capital.

Again, the case of the funds at the disposal of the bank being so abundant that the ordinary operations mentioned in article 25 cannot suffice for their employment has not been considered in the present Act. It is only when the funds of the bank, and those entrusted to it, become so considerable that the investments can no longer keep pace with the deposits, that the bank can properly amend its constitution by inserting, at the end of Title IV, the following articles:—

Article . . . . The sums remaining in excess of the ordinary operations shall be employed in accordance with special regulations:—

1. In discounting the bills of exchange of co-operative associations, credit institutions, persons or firms of established solvency, even though they be not members, provided the documents in question bear at least two signatures and be issued for a term not exceeding six months.

2. In loans upon security of provincial, municipal, or industrial bonds.

3. In advances upon security of goods.

4. In loans upon mortgage.

5. In the purchase of provincial or communal bonds, and of securities guaranteed by provinces, communes, societies, and other corporate bodies, as well as of obligations issued by people's banks for the purpose of promoting credit to agriculture.

Article . . . . The amount of credit to be granted in the form of discount of bills of exchange shall never exceed, in the case of any person or firm, the amount previously determined by the committee of the "castelletto" mentioned in article . . . . In the case of societies, the credit allowed shall not exceed one-fourth of the paid-up capital.

But where real security is given, the amount of credit allowed may be increased by a sum equal to four-fifths of the value of the said security.

Article . . . . The sum to be employed in loans on mortgage shall never exceed one-fourth of the social capital, and the lands mortgaged must be situated in the province in which the association has its seat, and also be free from other mortgages, and of a value at least double the amount to be advanced.

Article . . . . The loans must not be for a period exceeding 10 years, and those shall have preference which are intended to promote works of public utility, or the well-being of the working classes.

Article . . . . The general assembly of members shall determine upon security of what goods advances may be granted.

26. In the case of loans, discounts, operations of credit to agriculture, and advances (on pledge), those for the smallest amounts shall have the preference and whenever the bank is unable to accede to all the applications made to it, the preference shall be given to the oldest members, and to such as are also members of other co-operative or mutual benefit societies, and are not in arrears.

27. The association binds itself not to undertake any transactions of a gambling nature, and not to employ the sums entrusted to it as deposits in transactions extending over a long period, or in the purchase of real property, unless for the purpose of recovering a debt, or as a site for its offices.

When there is a superabundance of funds the board of directors shall, after consulting the committee of control, be authorised to employ, in the purchase of public securities issued or guaranteed by the State, or of debentures of land mortgage companies ("cartelle fondiarie"), a sum in no case exceeding one-half of the capital and reserve fund.

The board of directors is empowered, in accordance with the requirements of the association, to dispose of or pledge the bills of exchange held by it, and to purchase treasury bonds, and keep funds available in the hands of credit institutions and savings banks of approved solidity.

The last paragraph may appear superfluous, but it has been maintained for the sake of greater clearness, and for the protection of the directors, to whom the members must concede powers in proportion to the confidence felt in them.

A.—*Loans and Discounts.*

28. In order to apply for a loan or discount a member must—

(1) Have paid up at least one-half of the value of one share.

(2) He must not have any debt due either to the association or to his own sureties on account of any previous loan or discount obtained from the association.

(3) He must offer, according to circumstances, guarantees of moral and material for the exact fulfilment of the obligations which he assumes.

29. Loans may be granted to members, provided they do not exceed double the amount paid up by them on their shares.

But these loans shall in no case exceed the sum of . . . . lire over and above the amount paid up by the member, and shall not exceed one-third of the capital of the association.

Since any single member may hold, according to the Code of Commerce, 5,000 lire, and even according to this constitution 2,500 lire, it is found necessary to fix a maximum for loans, independently of the number of shares which the member holds.

30. The amount of the loans, referred to in the preceding article, must be stated in form of a bill of exchange, and be granted for a term not exceeding six months. A prolongation for a term not exceeding four months may, however, be granted upon punctual repayment of at least one-fourth of the original loan.

It may seem unnecessarily severe only to grant one prolongation of four months, but considerable strictness is required in order to prevent the stagnation of the capital for too long a term. Such banks as may, from special circumstances, find greater indulgence necessary, had better keep the term of six months for the original loan, and grant two renewals, each for three months, provided at each renewal one-fourth of the original sum be refunded.

31. Bills of exchange presented for discount must bear at least two signatures of persons well known and in good standing, and be drawn for a term not exceeding six months from the date of presentation.

The signature of the member presenting the bill is included in counting the signatures.

In the case of 'warrants' the goods deposited may be accepted in place of a second signature.

32. Specifications of work undertaken and statements of account presented for discount must bear the endorsement of the person liable for payment, and his engagement not to pay except through the bank.

33. No member shall be allowed credit at any one time, whether in the form of loan or discount or of account current, for a sum exceeding that which the general meeting shall settle as a limit every year upon the proposal of the board of directors.

The board of directors, acting with the controllers and the discount committee, shall decide the maximum of credit to which each member is entitled, within the limits above laid down, by means of the system of the "castelletto," which must be kept with the greatest accuracy, and revised once in six months at least. In order to form a quorum of the commission of the "castelletto" there must be present at least one controller, together with half of the directors and of the discount committee. The president of the bank, or his substitute, takes the chair in the commission. If the votes are equally divided, that view which he adopts is carried.

In banks where the duties of the discount committee are performed by the directors, the committee for drawing up the "castelletto" naturally consists of the controllers and directors, of whom three-quarters must be present to form a quorum.

The committee of the association of the Italian People's Banks, while aware that many persons of authority and important institutions disapprove of the "castelletto," nevertheless think it right to recommend its adoption as a measure of prudence.

B.—*Loans on Trust* ('Prestiti sull' Onore').

34. The assembly of members shall determine, each year, the amount to be employed in loans on trust, subject to the special regulations regarding them.

C.—*Operations of Credit to Agriculture.*

35. The association may (1) advance money on the security of agricultural produce; (2) discount to landowners the amount of their rents, entering into their rights under the lease in relation to their tenants; (3) make advances to farmers upon the security of their stored produce and crops, whether standing or harvested, provided the landlord shall have waived his rights in favour of the association.

36. These transactions, as well as loans and discounts made to farmers under the ordinary rules, may be for longer periods than those allowed for other transactions.

Every year the board of directors, in accord with the committee of control, shall determine the maximum term for transactions of credit to agriculture, and the maximum amount which may be employed in such transactions. In no case, however, shall the maximum term exceed one year, or the maximum amount exceed the sum of half the capital and reserve fund, and one-third of the deposite for a fixed term.

D.—*Advances upon Guarantee.*

37. The association may make advances upon the security of public stocks issued or guaranteed by the State, or of the debentures of land mortgage companies, for an amount not exceeding four-fifths of their value.

38. Such advances shall not be for a longer term than six months, but they may be renewed.

39. Should the stocks left as security fall in value to the extent of not less than 10 per cent., the person to whom the advance has been made shall refund a portion of it, or furnish additional security.

Should the sum advanced not be repaid when it falls due, or should the debtor, in case of depreciation of the security, decline to comply with the provisions of the preceding paragraph, the association may, without previous legal or judicial proceedings, sell the stocks, &c., received as security through a public broker or notary, up to the full amount of the debt, including principal, interest and expenses.

These conditions must be previously accepted by the person applying for the advance, in the certificate of debt, or even by a separate deed. Such certificate is not required in the case of liabilities guaranteed solely by the member's shares.

E.—*Accounts Current upon Guarantee.*

40. The longest term for an account current is fixed at two years. The maximum amount of such credits opened must not exceed the . . . . th part of the sum of the bank's paid-up capital and reserve fund.

The maximum amount which may be drawn in account current by any one member may not exceed the . . . . th part of the whole amount of credit to which he may be entitled under the provisions of paragraph 1 of article 33.

These proportions must vary according to the circumstances of the banks themselves.

F.—*Deposits of Cash.*

41. Cash deposits may be made, subject to withdrawal by means of cheques, or savings pass-books, whether payable to order or to bearer, or through interest-bearing bonds issued for a fixed term.

The interest accruing upon deposits, whether of savings or in account current, is added at the end of December in each year to the sum of the principal.

The provisions relating to the various kinds of deposits shall be laid down in special regulations.

G.—*Banking Facilities* ('Servizio di Cassa').

42. The association may undertake on behalf of its members the payment and collection of money, without charge, and it may also issue cheques on other places within the kingdom, and receive bills of exchange to cash them, either for members or non-members, upon payment of the expenses and the ordinary market commission.

The general assembly of members may authorise the board of directors, after consultation with the control committee, to undertake the business of collection in those communes where the bank has its office or branches, and also the periodical payment of taxes in behalf of such members who, having a sufficient balance to their credit, shall expressly make application for the purpose.

These transactions to be subject to special regulations, to be proposed by the directors and ratified by the general assembly.

H.—*Deposits for Safe-keeping and for Administration.*

43. The association may receive in deposit for safe-keeping bonds, documents, or valuables, on payment of a commission to be fixed by the board of directors.

44. The association is answerable for the safety of the articles deposited, except in cases of "force majeure"; but only for the value expressly assigned to them by the depositor.

45. The association may undertake the administration of securities payable within the kingdom, providing for the collection of the interest or dividends due thereon and for the repayment of the bonds drawn, placing the sums thus collected to the depositor's credit in account current.

TITLE V.—BALANCE SHEET, PROFITS AND THEIR DIVISION, AND RESERVE FUND.

46. The balance sheet shall show the real capital of the association, the respective amounts of payments made on account of shares and of payments in arrear, and shall manifest plainly and truly the actual amount of profits realised and losses incurred.

47. The profits shall be distributed as follows :—

(1) 70 per cent. to the members of the association, in proportion to the number of shares owned by them.

(2) 20 per cent. to the reserve fund.

(3) 10 per cent. placed at the disposal of the board of directors, to be distributed among the officials of the bank, or to be devoted to the encouragement of education and provident charities. Any portion of the sum which the board do not apply to such purposes shall return to the reserve fund, even though that fund may have reached to the full amount provided by the constitution.

48. Out of the portion of profits assigned to the servants of the bank, a part may be retained in order to establish a provident fund, or a pension fund, subject to regulations to be approved by the directors.

49. The reserve fund shall consist of—

(1) A sum annually taken from the business profits, as stated in article 47.

(2) The entrance fees of members.

(3) The difference between the nominal value of each share and the amount fixed each year (in accordance with article 24) for the price of new shares.

(4) Accidental profits.

50. Whenever the reserve fund shall equal half of the capital of the association, the share of the profits previously assigned to it shall be divided among the members.

Signor Levi suggests substituting for this :—"The reserve fund shall no longer be increased by the share of the profits assigned to it, after it amounts to half the share capital"; and adding an article in the following terms :—

"A portion of the sum of 10 per cent. of the profits, placed at the directors' disposal, shall be assigned, in accordance with the society's regulations, to increasing the interest upon small deposits of savings.

"To this same purpose shall be devoted (by decision of the general meeting, upon proposal by the directors) all or part of the sum of 20 per cent. assigned to the reserve fund, whenever that fund shall amount to half the share capital."

Should the reserve fund again fall below half the capital, the portion of the profits above referred to shall again be assigned to it.

TITLE VI.—ORGANS OF THE ASSOCIATION.

51. These are—

(1) The general assembly of members.

(2) The board of directors ("amministratori").

(3) The business manager, and the necessary clerks and employés.

(4) The committee of control ("sindaci").

(5) The discount committee.

(6) The committee of arbitration ("probiviri").

1. *Assemblies.*

52. The general assemblies of the members are either ordinary or extraordinary.

When lawfully constituted they represent all the members, and may decide all questions assigned to them by the constitution of the society.

53. The ordinary general meeting shall take place once a year, not later than the middle of March. At this meeting—

(1) The report and balance sheet for the preceding year shall be presented for approval.

(2) The officers of the association shall be elected for the current year.

(3) Any other matters within the competency of the general assembly shall be discussed, provided they are placed on the order of the day, either by decision of the board of directors, or at the request of the committee of control, or of at least . . . . members.

Such request on the part of members must be made in writing to the board of directors not later than the middle of January.

The meeting of the general assembly is fixed for the first half of March, because the balance sheet must be in the hands of the committee of control at least one month before the meeting.

Some banks hold two assemblies—one in December to elect officers, the other in February to examine the balance sheet.

This frequent summoning of the assembly may cause inconvenience to the managers, and may further serve as an excuse for a scanty attendance of members.

The number of members necessary to bring a question before the assembly must vary according to the importance of the bank.

54. Extraordinary meetings may be summoned at the discretion of the board of directors, or upon the request of the committee of control, or of . . . . members (or of one-tenth of the total number of members when there are not more than 500.)

55. The board of directors shall summon meetings of the assembly by a notice inserted in the judicial advertiser of the province, and by bills posted at least 15 days in advance, as well as in any other ways which the board may think fit.

All other Acts of the association shall be published in the judicial advertiser.

The notice shall mention what questions are placed on the order of the day, and shall further state the date of a possible adjournment.

56. One-fifth of the members form a quorum of the general assembly. Should this number fail to appear, the meeting shall stand adjourned for a week; the adjourned meeting shall be considered

lawfully constituted, whatever be the number of members present, and it shall be duly qualified to decide any of the questions on the order of the day of the original meeting.

57. The decisions shall be by an absolute majority. In the event of an even division the motion shall be considered lost. Secret ballotting shall be resorted to in personal questions, or upon the request of 20 members.

Directors may not vote upon the discussion of the balance sheet, or in matters relating to their responsibility.

58. The chairman of the board of directors shall preside at the meetings, unless the assembly, by a special decision (which may be come to by open voting), shall appoint another member to preside.

In dealing with the approval of the balance sheet, or with questions affecting the directors' responsibility, the assembly may appoint another member to preside.

In the chairman's absence the deputy chairman shall preside, and if he also should be absent one of the directors chosen by the board shall preside.

The President shall nominate the Secretary and the tellers from among the members.

59. When the business upon the order of the day is not finished in one sitting, the meeting may be adjourned to any time within a week by a simple declaration on the part of the president, without requiring further publication.

The adjourned meeting shall be legal, whatever the number of members present, provided only such questions are treated as have already been mentioned in the previous order of the day.

In accordance with the provisions of article 225 of the Commercial Code, the absence of any express stipulation as to representation of members by proxy excludes such representation.

2. *Board of Directors.*

60. The board shall consist of a chairman, a deputy chairman, and . . . . directors, elected for three years and re-eligible. One-third of the board shall be renewed each year. During the first and second years of the bank's existence, the retiring directors shall be designated by lot; afterwards they shall retire according to the date of their election.

In case of a vacancy occurring, the rest of the board, together with the committee of control, shall proceed to fill up the vacancy pending the next general assembly. Two-thirds of the whole body must attend for this purpose, and the voting shall be by an absolute majority.

One of the directors shall act as secretary, unless a secretary be appointed from outside the board.

The number of directors should be an uneven one, and not less than five, without counting the chairman and deputy chairman.

The original draft constitution proposed that the directors should not be re-eligible after two terms of office, but such a provision was deemed inconvenient, especially for small banks, with only a limited number of members fitted to undertake the office.

61. The duties of the directors are unpaid; they are exempted from any payment of caution money, and by accepting office do not assume any responsibilities beyond those stated in the Commercial Code.

62. The chairman (and the deputy chairman when acting in his stead) is precluded from contracting any personal liabilities towards the bank.

Personal obligations are such as are guaranteed merely by the signature of the borrower and his sureties, as distinguished from real obligations where the guarantee is some material object.

Some of the banks exclude all the directors from obtaining credit; others also, while excluding the chairman and deputy chairman absolutely, allow the other directors, as well as the controllers, to incur personal obligations, but require additional guarantees, not taking their own signature into account on their bills.

63. The board of directors shall meet ordinarily once a fortnight, one-half of the board to form a quorum.

64. The voting may be either open or by ballot. The latter mode must be used whenever expressly demanded, even if only by a single director or member of the committee of control; as also when personal matters, or questions in which some of the members of the board may be interested, directly or indirectly, are under discussion.

Questions are decided by a simple majority.

In open votes, whenever the division is even, the side on which the chairman votes shall carry the day.

In ballots an equal division shall involve the loss of the motion.

65. The meetings of the board shall be presided over by the chairman, and if he be absent, or unable to preside, by the deputy chairman. In the absence of the latter, the chairman may appoint one of the members of the board to act as president.

66. The board of directors shall—

(1) Fix the expenses of management.
(2) Draw up the balance sheets and propose the manner of distributing the profits.
(3) Settle and alter the rates of interest to be charged and allowed, as well as of the commissions to be charged.
(4) Draw up all regulations or bye-laws.
(5) Perform all acts connected with the administration which are not by this act expressly assigned to the general assembly, or to some other organ of the association.

The board of directors may, for the transaction and settlement of special business, and for the performance of particular duties, delegate its powers to one or more of its own members, or to the officials of the bank.

67. The Acts of the board shall be signed by the chairman or his substitute, and by the secretary.

68. The execution of the decisions of the board, whenever not delegated to one or more of the directors, shall be entrusted to the business manager.

In accordance with the provisions of the regulations, the manager's action shall be supervised by one of the directors appointed in turn to assist him in the various duties assigned to him.

3. *Business Manager and Officials.*

69. For the appointment or removal of the business manager at least three-quarters of the board of directors must be present, and the decision must be made by a majority of at least three-quarters of those present.

70. The manager, under the immediate supervision and dependence of the board of directors, and in accordance with special regulations, shall represent the association in dealing with third parties and before the courts of law; he shall sign the correspondence, endorsements and other acts and documents affecting the association,* superintend the officials and the accounts, see to the publication of the monthly reports, possess a consultative vote at the meetings of the board of directors and of the committees of discount and of the "castelletto," and perform all acts for which he has received the authorization of the board of directors.

71. The cashier shall keep, from day to day, and with perfect clearness, the books of receipts and expenditure, and shall give every aid to all examinations by the director on duty, by the committee of control, or by the manager, furnishing all information which they may apply for.

72. The manager and the cashier shall deposit, as caution money, such amounts as the board of directors may decide.

73. In case of the illness, absence, or removal of the manager or cashier, their duties shall be performed by one of the directors, unless the board of directors shall decide to entrust such duties to some other persons, defining, according to circumstances, their powers and responsibilities.

74. The officials shall be answerable to the board of directors, which shall appoint, suspend, or dismiss them according to the rules, and in the cases laid down in the regulations.

75. The officials must, upon their appointment, enrol themselves as members of the bank, and pay up the full amount of the shares subscribed by them.

The officials may not incur any personal liabilities towards the association.†

4. *Committee of Control (Sindaci).*

76. The controllers shall be five in number—three effective and two substitutes. Their duties are unpaid.

77. The controllers shall see to the strict observance of the constitution, regulations, and decisions of the association, and shall perform all the duties assigned to them by article 184 of the Commercial Code.

Article 184 of the Code of Commerce may be summed up as assigning to the "Sindaci" the duty of auditing and reporting on the annual balance sheet, and exercising a constant and effective supervision over the finances and administration of the society.

They may take weekly turns of duty, in accordance with the rules laid down in the regulations.

The relations and connections of directors, to the fourth degree of consanguinity and affinity, are ineligible to the office of controller.

5. *Committee of Discount.*

78. The committee of discount shall consist of the board of directors, and of . . . . members, elected by ballot in the general assembly; they remain in office two years, are re-eligible, and have no claim to any remuneration.

The general assembly may also delegate their election to a commission of . . . . members, elected by a simple majority.

The number of the members of the discount committee and of those of the commission chosen for their selection must depend on the importance of the bank.

Some banks have adopted other modes of selection, but the above is the one most generally adopted, and which, in most instances, best fulfils the objects of the discount committee.

In some cases, however, local or other circumstances may require a different course. The following may then be substituted: "The board of directors shall, every quarter, nominate four members to form the discount committee, together with the bank chairman or his substitute."

In some banks the duties of the discount committee are performed directly by the board of directors.

79. The members of the discount committee shall perform the duties of a discount commission, two each week, jointly with two of the directors, according to a list drawn up by the bank chairman. One of the two directors shall preside.

80. Decisions shall be taken by a majority; in case of an even division, the application shall be rejected.

The members of the discount commission shall be precluded from presenting bills of exchange for discount during the week when they are on duty, and must abstain from voting upon any questions in which they are interested directly or indirectly.

81. The voting may either be open or by ballot; votes respecting transactions proposed by directors or members of the discount committee must always be taken by ballot, and such motions shall not be considered carried unless supported by at least three votes.

82. No loan can be granted, nor any bill of exchange discounted, without the previous approval of the discount commission.

The manager and other officials shall be bound to furnish to the commission all the information it may apply for.

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* The fear lest the duty of attending in turn at the bank should prove too burdensome in small institutions has caused the right of signing for the society to be given to the business manager by himself. Signor Levi deems such a course unsafe, and considers that the signature of one of the directors should be required in addition; he would therefore substitute for the words "he shall sign the correspondence, &c. . . . ." the phrase, "he shall, jointly with one of the directors, be empowered to sign for the association"; but in order to facilitate the performance of certain acts, he would add at the end of article 70, "the board of directors may further authorize the separate signature of certain specified documents in behalf of the association by the director or other officials."

† See Note on article 62.

83. The administration of the bank is not bound to explain its refusal of credit to the applicant, nor may any question be put in the general assembly as to the motives of such a refusal; the member whose application for credit shall have been refused can only appeal to the committee of arbitrators, which shall settle the question after hearing the bank manager.

6. *Committee of Arbitrators.*

84. The committee of arbitrators shall consist of three members elected by the general assembly. They shall remain in office three years, be re-eligible, and have no claim to any remuneration.

The arbitrators shall decide without appeal all questions arising under articles 10, 16, and 83 of the present articles, as well as such questions as may be submitted to them by special regulations or decisions of the general assembly.

They shall further settle any disputes arising between members of the bank and its administration when referred to them by common consent of both parties.

85. The committee shall select one of its members to preside, who shall summon it when required.

The board of directors and bank manager shall be bound to furnish to the arbitrators any information or explanation for which they may apply.

86. Except in the cases referred to in article 10, the arbitrators shall act in the capacity of friendly mediators.

Title VII.—Concerning the Cancelling of Securities, &c.

87. In cases of loss, theft, or destruction of share certificates, policies of the deposit of securities, pass-books for accounts current or savings deposits made personal, orders to pay receipts or other valuable documents, duplicates may be issued in the manner and subject to the safe-guards enumerated below.

88. The person reporting the loss of any security and applying for a duplicate must give a minute and precise description of the lost document.

89. The board of directors, upon receipt of such application, shall suspend, for a period to be determined in each case, the payment or restitution of the value represented by the lost document.

90. At the expiration of the period fixed, without any objections on the part of other persons, or when such objections have been either rejected or withdrawn, the board shall declare the lost documents to be cancelled, and shall issue a duplicate in their place.

91. The board may excuse the applicant from the formalities mentioned above, and issue the duplicate upon security, real or personal.

Title VIII.—Of the Dissolution of the Association.

92. The association may be dissolved, even before the term fixed by this Act, upon the loss of not less than half of the capital paid up at the time of the previous yearly balance sheet, or by the vote of a majority of at least two-thirds in a meeting of the general assembly, convened for that express purpose, at which not less than one-third of the members must be present.

In case of dissolution, the assembly shall determine the mode of liquidation and appoint liquidators.

The distribution of the sum resulting from the liquidation shall be made in proportion to the members' shares in the patrimony of the association.

Title IX.—Miscellaneous Provisions.

93. The assembly may make amendments or additions to this Act, provided these are approved by the absolute number of members, and majority required in case of the dissolution of the association.

Should one-third of the members not be present at the meeting, a second one shall be summoned at an interval of 15 days; the decisions of this meeting shall be valid, irrespective of the number of members present, provided they are carried by a majority of three-quarters of those present.

94. The association shall be considered to be constituted as soon as . . . . shares have been subscribed, and . . . . lire paid up.

95. A copy of the general regulations approved by the board of directors must always be accessible to the members.

MODEL BUSINESS RULES OF A CO-OPERATIVE POPULAR BANK (ITALY): SYSTEM OF SIGNOR LUZZATTI.*

Chapter I.—Members and Shares.

(Sections 1 to 19 deal with the admission, and expulsion of members, their subscriptions for shares, and the transfer of such shares. Co-operative societies, which are associations of persons rather than

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* Chiefly translated from the manual of Signor Levi, with additions, &c., from the rules of the Padua Popular Bank as contained in Signor Luigi Rodino's 'Manual of Co-operative Society Precedents' (Barbera Manual Series), 1893.

These rules are supplementary to the articles, and deal in great detail with the methods to be adopted in order to carry out the articles. Signor Levi's manual is largely an expansion of and commentary on the articles and rules of business of popular banks.

Full translation is only given of such rules as seem suggestive for work in India.

of capital, demand great caution in the persons whom they admit, both for the safety of their business, and in order to the stimulation of non-members towards the development of those qualities which entitle a man to membership and to the benefits derivable therefrom. Hence not only is the admission of members but also the transfer of shares rigidly safe-guarded, for shares can only be held by members, so that to allow transfer is to admit a member: transfer can therefore only be effected in due form and with the prior consent of the directors. Every share is evidenced by a formal certificate taken from a numbered stub with counterfoil containing a description of the member and signed by the directors and the accountant: on withdrawal the withdrawing member must sign the stub in token of withdrawal.

Sections 20 to 24 deal with the issue of duplicate certificates and with the payment of dividends on shares.)

Chapter II.—Business of the Bank.

SECTION I.

(Rules 27 to 47 relate to the grant of ordinary loans and discounts. All ordinary loans of whatever term are issued upon bills of three or six months given to the borrower; interest is taken in advance on the discount of the bill (31); "a request for renewal must be presented at least four days prior to the date of repayment, and must be accompanied by repayment of one-fourth of the debt." (33) The bank provides *gratis* printed forms of request for loans; these are filed in a book which is submitted to the discount committee with all necessary information by the manager: on acceptance the borrower executes a bill for the sum granted. The remaining rules deal with office details.)

SECTION II.—LOANS ON TRUST.*

The bank grants loans upon trust to members of at least (two) years' standing in any one of the mutual benefit societies of the city, † provided (1) that they are not members of the bank; (2) that they have a good reputation for honesty and industry; (3) that they are engaged in some business or industry; (4) that they know how to read and write.

Every year the general meeting, upon proposals made by the directors:—

(1) decides the maximum amount which may be granted in loans upon trust; (2) assigns from the profits of the bank a sum for the formation and increase of an insurance fund which shall recoup the bank for any final loss on such loans. ‡

A candidate for one of such loans must make his request in writing on a printed form supplied by the bank, giving all details as to his status, residence, the purpose for which he requires the loan, &c.

The demand must be furnished with a declaration by the president of the benefit society to which the candidate belongs (or by the patrons) showing (1) the status and position of the candidate; (2) the date of his entry into the benefit society; (3) that he has been regular in his subscriptions thereto.

Loans will be granted upon a bill signed by the candidate, and may not exceed £4 each.

Repayment must be made by (weekly) instalments of not less than one lira (10*d.*) on loans not exceeding 30 lire, and not less than (two) lire on loans exceeding that sum.

No second loan will be granted to a borrower who has not been punctual in his repayments.

Except in special cases no loan will be granted till the expiry of at least (two) months from repayment of a prior loan: if the borrower has had (three) loans, at least (one) year must elapse before the grant of another.

Any borrower who fails to repay his dues in the prescribed manner will lose all future benefits, and the directors must acquaint the society to which he belongs (or the patrons) with the view of coming to some arrangement to obtain the eventual repayment of the balance due.

A candidate obtaining a loan must pay interest in advance at the rate of (2) per cent. per annum.§

For the management of this business and of the insurance fund a special administrative committee of (3) persons shall be annually elected by ballot from amongst a committee consisting of representatives from the several benefit societies and from the directors of the bank.

For the examination of individual loans there shall be a special loans committee consisting of (2) directors of the bank and (3) representatives of the benefit societies. Four members of the last-named committee must meet every (15) days at the bank office with a director as chairman for the examination of requests for such loans.

At the end of each year the special administrative committee shall report through the directors to the general meeting upon the management of this branch of business.

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* From the rules of the Padua bank as contained in Signor L. Rodino's 'Manual of Precedents.'

† Some banks, *e.g.*, Bologna, do not make this condition: they will admit any poor person to a loan on trust who satisfies the four conditions which follow in the rule, provided that they are recommended by two 'patrons' who must be well known men of good local standing, who are personally acquainted with the candidate, and will vouch for his character and the use he intends to make of the loan: these patrons have no material responsibility in case of failure of the borrower to pay, but are morally bound to assist the bank by stimulating and encouraging and looking after the borrower. Many of these patrons are, however, members, directors, &c., of the local benefit societies. A patron whose candidate has failed in his repayments, is usually refused subsequently as patron.

‡ It is usual only to grant these loans when the bank has attained an established position, and can, without injury to the members, set aside a sum, usually from profits, for the purpose.

§ Some banks, *e.g.*, Bologna, charge no interest or commission of any sort on these loans. In the Padua bank rules entered in Signor Levi's Manual (1886) the following are found:—

The bank upon each loan credits itself with interest at 4 per cent. per annum, which is debited to the insurance fund (fondo di previdente beneficenza) which is a fund created by the bank from profits to recoup any losses.

The borrower pays an actual interest of 2 per cent. per annum which is placed to his credit in a separate register: when such interest shall have accumulated up to the amount of a share in the bank, he shall be credited with a share (and becomes an ordinary member of the bank).

Occasionally the bank will issue a share of the value of £2, with all the rights and duties of ordinary membership.

Persons who have thus obtained shares can only obtain subsequent loans according to the ordinary rules of the bank.

SECTION III.—AGRICULTURAL CREDIT.*

48. The bank will make advances on pledge of agricultural produce (grain, forage, &c.) deposited in the barns of the bank or of persons accepted by them.

49. (The value of the produce must be duly verified, and a promissory note executed by the borrower, against a receipt given by the bank for the goods. The borrower must pay the cost of valuation, storage, insurance, &c.).

* * * * *

52. Loans upon the mortgage of standing crops (*Anglicé* bills of sale) are made upon ordinary bills under the general rules for loans, the condition of actual pledge being omitted. The borrower must prove that he is insured against the risks of fire and hail.

53. Loans will only be granted after due valuation by experts, the cost of which must be borne by the borrower.

54. Operations under this section must be kept entirely separate from other operations in the bank's accounts, and must be expressly shown and reported on in the monthly returns and annual statements.

SECTION IV.

(Relates to loans upon pledge of moveables).

SECTION V.—CASH CREDITS.

69. A member who desires to open a cash credit with the bank must present his application stating the proposed amount of the credit and the security which he offers. No one who is unable to read and write will be allowed to open a credit.

70. The application will be submitted to the discount committee which, after examination of the status and solvency of the candidate and of his sureties, will admit, modify, or reject his request.

71. Should the application be accepted, the candidate must present himself at the office with the persons tendered as sureties and deliver a bill of exchange † of an amount and term corresponding with those of the cash credit. The full amount without deduction of interest will then be placed at his disposal as a drawing account.

72. The holder of the credit will receive a pass-book and a cheque book; the former will contain entries of the credit amount, and of all drawings and in-payments: the latter serves for drawings.

73. The holder of the credit may draw up to nine-tenths of his credit either in one or several instalments; one-tenth is withheld by the bank as a guarantee for the interest and charges due on the advance. He is at liberty to pay in to the credit of his account any sums not exceeding his drawings: any excess will be transferred to ordinary deposit.

74. The directors may vary, according to circumstances and even before the expiry of the credit term, the rates of interest payable by and to the credit-holder.

Interest shall be calculated and paid up quarterly, and at the closure of the credit. Interest due by the credit-holder shall at each period be added to the amount at his debit: that due to him shall be placed to his credit. The credit-holder must give the bank an acquittance acknowledging the correctness of the account.

75. When the credit-holder shall not, during two successive quarters, have made any repayment on his account, the bank shall have the right to close the account, and may demand the immediate repayment of the whole amount drawn and of all charges, without waiting for the expiry of the term agreed upon.

76. All charges, stamp duties, &c., must be paid by the credit-holder at the opening of the credit. The pass-book and all unused cheques must be returned at the closure of the credit to the bank, which will then return the bill of exchange cancelled.

77. All rules relating to ordinary deposits in the matter of the currency of interest, to notice of drawings, to the form of pass-book and cheques and the signatures therein, are applicable to cash credits.

SECTION VI.—ORDINARY DEPOSITS IN ACCOUNT CURRENT.

88. A depositor may withdraw up to (£20) at sight, from (£20 to £40) at one day's notice (and so forth).

89. The bank reserves to itself the right to refuse deposits either in whole or in part; also to pay on demand any sum however large.

90. No depositor can draw in a single day, nor will the bank pay more than (£20) at sight, even though the cheques presented may bear different dates: nor shall any depositor draw at sight during the interval between notice of intention to draw and actual drawing, nor on the day of such drawing. Notice of only one drawing may be given on a single day, and during the currency of such notice no further notice may be given.

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* These rules are taken from Signor Levi's manual, and relate merely to special modes of granting loans to agriculturists. In the Padua rules the following is found:—

Operations in agricultural credit shall be conducted by the bank in conformity with the laws of 23rd January 1887, No. 4276, series 3, with its attendant regulations of the 4th May 1889, No. 2389, series 3, and with any special rules which may be laid down by the bank. This law and regulations will be found elsewhere in this appendix *s.v.* "Agricultural credit."

† Un vaglia cambiario; presumably the engagement of the borrower takes this form in order to enable the bank to re-discount his bill. In India, as in Scotland, the form of engagement would be a bond with sureties, or a promissory note in which principal and sureties jointly and severally engage themselves.

Savings Deposits.

94. The rate of interest on savings deposit shall be superior to that on ordinary deposits.

95. On the opening of an account the bank will provide the depositor with a pass-book, signed by a director, by the manager and by the cashier, and containing the chief rules governing such deposits. Each pass-book bears a number corresponding to that given to the account in the bank's registers. The depositor must pay the value of the book and of the stamp duty thereon.

96. Pass-books may be to bearer* or personal (al portatore o nominativi). On the cover must be entered clearly the name and address of the depositor when the pass-book is personal: or else a note that it is 'to bearer.'

97. The owner of a personal pass-book must write his signature in the bank's register of signatures as required in the case of accounts current.

98. Pass-books to bearer change hands by simple transfer: personal pass-books only by special transfer which must be notified to the bank in one of the following ways: (here follow several rules).

99. Personal pass-books may be specially charged† (vincolati); in such cases the nature and conditions of the charge (or encumbrance) must be expressly entered in red ink on the cover, as also in the bank's register (ledger).

100. Every entry in the pass-book of in-payments or withdrawals must be in letters and figures and signed by the book-keeper and cashier.‡

No in-payment will be received or withdrawal allowed without the production of the pass-book. Withdrawals on personal pass-books can only be made by the owner or his duly accredited agent; on pass-books to bearer they will be made to the person presenting the book, save in cases of patent irregularity or error.

101. Where a pass-book to bearer has been lost, stolen or destroyed, the holder should at once notify the bank which, should it see sufficient cause, will at once suspend all operations upon such account. But should such suspension not be confirmed within one week by receipt of a judicial order to the same effect, it will then cease, and the bank will be at liberty to pay to the holder.

Should a judicial order be received or proper security be given, the bank may issue a duplicate of the lost, &c., pass-book, bearing the same number as the original but expressly inscribed as a duplicate.

102. In-payments of less than (one) lira (10 *d.*) will not be received as deposits.

103. Only one pass-book can be granted to or operated on by a depositor.

104. Depositors can withdraw up to (£4) at sight, up to (£20) on (two) days' notice (and so forth). During the currency of the notice no sum can be withdrawn or further notice given by the depositor.

Petty Savings.

105. The rate of interest on petty savings deposits shall be higher than that on ordinary saving deposits.

Petty savings deposits shall be governed by the rules relating to ordinary savings except in so far as the following rules differ.

106. The pass-books of petty savings and ordinary savings deposits shall be separately numbered and have differently coloured covers.

107. Pass-books will be issued *gratis* by the bank.

108. In-payments of less than one penny (dieci centesimi) will not be received, nor will withdrawals of less than (one) lira be permitted.

No in-payment of more than (£4) shall be received on one account in any one day, nor more than (£40) in any one year, nor more than (£80) in all including interest credited thereto.

Should the account pass (£80) it shall be transmuted into an ordinary savings account.

109. A depositor may withdraw up to (£1) at sight, from (£1) to (£2) on two days' notice (and so forth).

No withdrawal at sight can be claimed as of right within one week of a previous payment.

Fixed-Term Deposits.

(The rules, 111–118, do not require translation, but it may be noted that deposit receipts must be taken from a stub with counterfoil both of which must contain full details of the transaction. The directors may also discount deposit receipts if the holder wishes for re-payment before due date.)

SECTION VII.—OTHER BANKING BUSINESS.

(Rules 119—142 do not need translation.)

CHAPTER III.—MANAGEMENT OF THE BANK.

(The only matters requiring notice are those relating to the work to be specially undertaken by individual directors and by the committee of supervision, to the castelletto (credit register), and to the arbitrators.

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* *See* chapter on Savings banks in Vol. I and the law in the present appendix.

† *See* chapter on Savings banks in Vol. I, page 205. These pass-books bear a special lien (vincolo) and can only be dealt with subject to that lien.

‡ The rules regarding the double check in English Trustee Savings banks are superior to these rules. *See* chapter on Savings banks in Vol. I and the section in this appendix.

Rules 155 to 160 provide that the directors shall irrespective of their collective work, each take periodical terms of office duty of (say) fifteen days each: during such period the director or directors on duty must examine and countersign all cash transactions whether of receipt or disbursement, must assist the chairman to examine requests for admission as members, must assist in examining the demands for loans, &c., and attend any meeting of the directors. This matter is of the highest importance, as it compels each director to be an active office bearer, fully acquainted with the affairs of the bank, while it prevents such affairs from falling into the hands of one or two persons as is so frequently the case in the Madras Nidhis. Similar rules will be found in the American Building Societies and in the English savings banks, where the 'double check,' viz., that of the actual directors or trustees and that of the office establishment, is insisted on.

All directors should be compelled, by the articles or rules of a bank, to take active service in all the affairs of the bank (*See* article 5 in the "Specimen Articles for a Village Bank" in Vol. I).

In the operations of very small banks, open perhaps only once in a week, the rules may not be of such importance, since the operations will be small and comparatively few, so that all or most of the directors should have personal knowledge of all the business and of every transaction. But many Nidhis already have offices which are open throughout the whole of every day, and have considerable and numerous transactions; for them the rules as to turns of duty are very necessary.

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164. The duty of the committee of supervision (Sindaci) is to exercise supervision over the management of the bank in view to maintain the strict observance of the law and articles. For this purpose they must daily visit the bank, the duty of such inspections being delegated to each member of the committee by (fortnightly) turns: any such member may, however, inspect the office at any time even out of his turn.

This daily inspection must be rigidly maintained, every care being taken to avoid its omission in consequence of absence, &c.

165. The member on duty must visit the office at various hours, examine the current business, and the books, especially the day-book. He must satisfy himself that all operations are duly registered, and that the day-book is balanced with the other books: at the close of his turn of duty he must draw up a certificate of their accuracy.

166. The member on duty must, each month, compare and countersign for publication the abstract of the financial situation.

The annual balance sheet must be examined by the whole committee, who will draw up their report for the general meeting.

167. A minute book will be kept in which the members will enter any remarks or suggestions: this shall be kept in the custody of the chairman of the bank. Any notes relating to persons must be sent under seal.

168. No member on duty can obtain during such period any advance from the bank. (This is also the case as regards directors on duty.)

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The Credit Register (Castelletto).

(Rules 179 to 186 relate to the preparation of this register; in small banks all the directors join with the committee of supervision in preparing this register, which must be revised every six months. The register shows the maximum amount of credit which may be granted, outside of material pledges or mortgages, to each member. The register must be kept secret, and every director, &c., is bound at once to give information of any such changes in the circumstances of a member as require an alteration of the register. In larger banks there is a special committee.

Rules 187 to 191 describe the procedure of the arbitrators, whose duties are mentioned in article 84 of the Model Articles for these banks. The present rules require that their enquiries shall be complete and their examination of evidence not necessarily confined to members of the bank: all the arbitrators must be present and must sign the minute book, which should contain accurate and full notes of their enquiry. The result must be communicated to the directors and to the parties concerned.

The remaining rules relate to the office establishment, &c.)

MODEL ARTICLES FOR A CO-OPERATIVE RURAL BANK (ITALY—SYSTEM WOLLEMBORG).

(These articles are, practically, those of the German (Raiffeisen) system on which they are modelled.

It need only be noted—

(1) that all loans of whatever duration are granted only by successive renewals of three months each, a practice which enables the bank to refuse renewal should the borrower have broken the terms of his contract: it also serves to encourage borrowers to repay their loan in whole or in part at each successive quarter;

(2) that arrangements are made to lend to tenants, in which case it is necessary for the bank to obtain from the landlord a statement that he consents to or recognizes the loan, and that he will not avail himself of the privilege granted by section 1958 of the Civil Code (section 1958 of the Civil Code relates to the right of the landlord to distrain for arrears of rent: his 'privilege' takes precedence of all other claims);

(3) that an express declaration is made (article 30) that it is the duty of the bank to promote all institutions likely to better, whether morally or materially, the condition of the inhabitants of the village, and to foster the foundation of co-operative associations for production, sale, and consumption, by granting loans or opening cash credits to persons undertaking

such enterprises. (This recalls the words of M. de Laveleye that the popular banks of Italy "everywhere form centres of economic and moral progress," and of the priest who declared that the village bank had done more for morality (*i.e.*, as regards industry, sobriety, &c.) than all his sermons;

(4) that there are no shares and no share capital. This was the original Raiffeisen principle, but the German law has now made shares and a share capital compulsory;

(5) that, consequently, there is no dividend to be paid, and the *whole* of the profits are carried to a reserve which forms the joint capital of the bank; this serves to cover any losses, and, after it increases to a sufficient sum, its annual proceeds may be used in any work of communal utility. No member has any individual right in the reserve, nor can it be divided by a vote of the general meeting; in case of dissolution it must be deposited as a trust in some secure bank, and its annual proceeds paid over to some local charity; the capital must remain intact until some new bank shall be formed similar to the one dissolved when it shall be handed over to the new bank.

This article can only be modified in a general meeting at which every member is present, a two-thirds majority sufficing for the alteration of other articles (articles 31 to 33);

(6) that the general assembly shall decide all disputes between members regarding the affairs of the bank and its rules, and, in default, three arbitrators, to be selected by the parties according to article 12 of the Code of Civil Procedure, shall finally decide the matter. The arbitrators may also act as conciliators.)

MODEL ARTICLES* FOR A GROUP OF POPULAR BANKS (ITALY).

1. The co-operative popular banks of (such and such a district) have united in a group† for the purpose—

(*a*) of promoting within such area the diffusion of the several forms of popular credit and co-operation;

(*b*) of drawing such institutions together in intimate and cordial relations for the interchange of mutual good offices;

(*c*) of establishing, in the common interest, distinct modes of guarding against the abuse of credit;

(*d*) of co-operating with the associated banks so as to render their action more efficacious;

(*e*) of coming to the aid of such banks whenever they are in difficulties and are willing to submit to an inspection of their affairs.

2. All popular banks and co-operative institutions within the above-mentioned district may become members of the group by a declaration of adhesion.

3. Every such associated institution may withdraw from the group on sending in an express declaration to that effect at least six months before the close of the business year.

The associated institutions may expel any institution which fails to obey the rules of the group, and the decisions of the general meeting.

4. The group acts—

(*a*) by the general meeting of the representatives of the associated institutions;

(*b*) by the president of the group.

5. Every associated institution, from time to time, elects, from amongst its directors or committee of supervision, a delegate to represent it at the general meeting of the group. This meeting is convoked by the president, who, at least fifteen days before the meeting, will issue invitations thereto containing a list of the subjects for discussion. For the preparation of such list the president shall previously address the several institutions to ascertain their wishes.

Each institution must inform the president of the name of its delegate at least five days prior to the meeting. Such delegation is personal: no delegate can represent more than one institution.

A quorum is constituted whatever the number of delegates present.

The general meeting elects the pres dent who may be re-elected year after year.

The meeting shall determine the place which is to be considered as the central seat of the group.

The president may assign his functions temporarily to another delegate in case of necessity. He appoints a secretary who draws up the minutes of the meeting.

6. All offices are purely honorary and gratuitous.

Each institution, however, pays its delegate the expenses necessarily incurred by his attendance at the meeting.

7. For the general expenses of the group association, each associated institution shall pay a fixed subscription of . . . . lire if its paid-up capital exceeds . . . . lire, and of . . . . lire if it falls below that sum. These subscriptions shall be paid into the bank at the central seat of the group, and will be held at the disposal of the president.

8. The meeting shall ordinarily be convoked once in every year, but special meetings may also be held whenever the president considers it necessary, or when at least three associated institutions demand it on good cause shown.

The meeting may be held elsewhere than at the central seat of the group, provided that it be a place where there is an associated bank.

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* From Signor L. Rodino's 'Manual of Co-operative Society Precedents' (Barbéra Series of Manuals).

† The co-operative banks and societies of Germany, Austria and Italy, invariably form themselves into 'Groups' or 'Unions' for the purposes mentioned in this section, and especially for the purpose of providing efficient audit and inspection. (*See* chapter on Popular Banks in Vol. I, *s.v.*, Germany and Italy: also the chapter on 'Law', *s.v.* 'audit'; also the German Co-operative Law of 1889, in the present appendix, and the articles of the 'Agricultural Credit Central Bank' of Neuwied, and of the 'General Union' of the Raiffeisen system.

The meeting appoints the inspectors charged with the examination of the affairs of a bank in difficulties, and will concert means for its relief.

9. No modification may be made in the present articles except at a meeting at which the delegates of at least two-thirds of the associated institutions are present.*

RULES FOR THE ISSUE OF AGRICULTURAL DEBENTURES BY THE POPULAR BANKS OF THE FIRST GROUP (TREVISO ITALY).

It was early recognized that the popular banks on the Luzzatti system were helpful to agriculturists, but, in order to increase their usefulness to this class, the founder of the system desired to provide the banks with long-term capital instead of financing them with deposits withdrawable at call or short notice. Hence the origin of the "Buoni del tesoro dell' agricoltura a scadenza fissa" (agricultural debentures of fixed term).

As shown by their name these debentures are issued for the development of agriculture, especially for improvements; an agriculturist who desires a loan for such improvements (*e.g.*, the digging of a well) presents an application to his local bank with a statement of the nature of the intended improvement and the security offered; this is specially examined by the bank experts (probiviri dell' agricoltura) and, if approved, the loan is granted as soon as the bank has placed a corresponding debenture or set of debentures.

Each debenture is guaranteed (1) by the security given by the borrower including his sureties; (2) by the assets of the bank. They may be compared with the debentures issuable by English loan societies under the Act of 1840, but are more solidly based.

A peculiarity is that they are issued under the authority and approval of the group, by the president of which they are countersigned: it does not appear that this countersignature gives them any additional material guarantee, but merely certifies that the debenture is regularly issued.

These debentures are not to be confounded either with the "buoni fruttiferi a scadenza fissa," which are merely receipts for fixed-term deposits bearing interest, or with the agricultural debentures (cartelle agrarie) issuable by various banks under the law of 1887 (*q.v.*).

The following are the rules issued by the Treviso group of popular banks:—

1. The co-operative popular banks of the province of Treviso, comprising the 'first Italian group,' will issue agricultural debentures of fixed term payable to bearer and bearing interest: the first series shall not exceed £20,000 in amount, and are subject to the following conditions.

2. Their purpose is to procure for the popular banks a special fund for the aid of agriculturists, by preference for such agricultural operations as demand a lengthy period (for the recovery of the sum spent): *e.g.*, for projects of irrigation and drainage, for the purchase and renewal of implements which will increase the value of labour, for the restoration of plantations, for the levelling and improvement of the soil, for the purchase and breeding of stock, for the postponement of the sale of produce and stock in expectation of a rise in prices, and the like.

3. The banks (of the group) will, by way of experiment, issue loans upon bills, renewable every four months, for a period of one or more years, to agriculturists who are members of the banks, and who show that they intend to devote such loans to one of the purposes mentioned in rule 2.

4. The bank (granting such loan) will enquire every four months whether the borrower continues solvent and whether the loan has been properly utilized. Should the result of the enquiry be unsatisfactory, the bank will have the right of at once closing the loan and requiring its repayment in full.

5. The bank will invariably take the opinion of the discount committee and that of the agricultural experts (probiviri) before either granting or recalling a loan.

6. The three agricultural experts shall be annually elected by the directors from amongst persons who are thoroughly acquainted with the agriculture and rural economy of the area within which the bank operates; they shall invariably give their opinion with reasons to the discount committee upon every application for an agricultural loan.

7. The bank may, on the expiry of a loan, grant successive renewals provided that the conditions admit of it and the sureties agree thereto, and provided that the borrower makes a part payment at each renewal.

8. The agricultural debentures shall be called "Buoni del tesoro dell' agricoltura a scadenza fissa presso le banche popolari," and shall issue on account of and under the responsibility of the issuing bank.†

The debentures may be placed (on the market) either by the issuing bank, or by the president of the group if so requested.

9. The debentures shall be of uniform character for all the banks of the group, and shall be signed by the president, manager, and cashier of the issuing bank, and also by the president of the group as an attestation that they have been duly issued.

10. The president of the group in conjunction with his council and after taking the opinion of the directors of each bank, shall determine the amount of the debentures issuable by each bank, regard being had to the economic and financial position of each bank and to the local needs of agriculture in

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* The above articles provide indifferently for the duties of a group or union. The German law of 1889, irrespective of the articles of the unions under that law, is much more complete and deals expressly with the provision for examining inspectors: *see* translation of the law *supra*, page 82, and Vol. I, pages, 295, 296; also the translation of the articles of the 'General Union' of the Raiffeisen system.

† The articles do not state the precise security on which these debentures are based: that is probably provided for in the articles of the individual banks. The object of issuing these debentures through the groups president is not to give them greater material security, but to guarantee that they are good investments, solidly founded on genuine transactions (mortgages, &c.) and are duly covered by assets. It does not appear that the several banks of the groups assume any joint responsibility for the debentures.

the neighbourhood; care must be taken that the aggregate shall not exceed that fixed for the total of the first series and that the market value of the debentures shall be maintained.

The council of the group shall arrange for the maintenance of the necessary registers.

11. The council of the group * shall consist of the president of the groups and of two delegates chosen by him every six months from two of the associated banks.

12. The interest on agricultural loans made with capital obtained by the issue of these debentures shall be uniform for all the banks. The group council, in consultation with the directors of the associated banks, shall fix such rate, which shall not exceed by more than 1½ per cent., that paid by the banks upon the debentures.

The form of debentures shall be settled by the council of the group.

13. The council of the group shall draw up the business rules necessary for carrying out the present rules.

ARTICLES OF THE CO-OPERATIVE CREDIT SOCIETY OF POLIGNY.†

Constitution, &c.

1. A co-operative society of production, consumption, and mutual credit, with variable capital, is hereby formed among the members of the Agricultural Association of Poligny, and is called 'the Co-operative Society of Mutual Credit of the Arrondissement (taluk) of Poligny.' Members of other associations of the Jura which form part of the 'Union of Agricultural Associations of the Jura,' may belong to this society.

Its objects are—

(1) to buy and sell all classes of produce, goods, and cattle for members of the association, and for associates who pay an annual subscription ; ‡

(2) to bring aid to honest and industrious agriculturists, by means of loans and discounts, and to provide means for savings.

The society absolutely prohibits all speculative business, and all loans or discounts to non-members. All deposits are classed as loans to the society and are placed in account-current, a pass-book being given to the depositor.

The duration of the society is 30 years, and its head-quarters at Salins.

Capital and Shares.

* * * * *

2. The own capital is fixed at £800, in 40 shares of £20 each, called founders' shares.§ It may be raised to £8,000 by the issue of further shares of the same value, or of fractions (coupures) of shares, each of the value of £2, which may be subscribed for by ordinary members subsequently admitted.

3. The capital may be increased, or it may be reduced by the withdrawal either in whole or in part of the share contributions, but must never fall below £200.

The general meeting which decides upon an increase of capital shall at the same time fix the conditions on which the new shares shall issue, and especially the amount to be paid by each new subscriber as a contribution to the reserve.

Founders' shares will not be repaid by the society except in case of the death of the holder or of the liquidation of the society.

4. The shares or fractions of shares shall be solely personal, even when entirely paid up, according to the provisions of section 50 of the law of 1867. They can only be negotiated by transfer in the books of the society.

Since the society is essentially an association of *persons*, the consent of the board of directors to any transfer of shares must be obtained; the board may always refuse such transfer whatever may be the form such transfer assumes, or whatever its reason.

5. The heirs of a deceased shareholder are not recognized as members until one of them shall have been accepted by the board as representative of the deceased.

If no such representative is elected the heirs shall be entitled to receive repayment of the share value, but only in the mode and after the period fixed by article 10.

The same rule holds good in the case of the representatives of shareholders incapable or absent in the legal sense of the words, and of undivided co-proprietors of one or more shares.

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* For the rules guiding the formation and working of a group, *see* the Model Articles immediately preceding these rules.

† This society is the pioneer of the form of agricultural credit institution which, in a nascent stage, is special to France, and has apparently generated the new law of 1894, which follows subsequently. The Poligny Society is an agricultural association under the law of 1884 which legalized such associations, and it developed a credit annex to meet the needs of its members. Its success produced a few similar societies, and the law of 1894 (*see* translation next following), seeks to utilize the many hundreds of agricultural associations which have sprung up since 1884, as institutions for agricultural credit (*see* Vol. I, pp. 127, 179–81, 218–20).

‡ It will be noted that there are two classes of adherents, viz., members and associates. The latter may share in the co-operative benefits derived from the purchase and sale of produce and goods, but cannot obtain credit, which is confined to members.

§ These shares are intended merely to provide the first working capital. Such first capital may be attracted in various ways, *e.g.*, by making the society unlimited as in Germany, whereby outside capital is readily attracted as deposits or as loans from savings banks, &c., or by obtaining the guarantee of well-to-do persons, on which a bank or others will advance funds, or, as in the present case and as in the Bodenkredit Anstalt of Hungary (*see* Vol. I, pp. 77, 78 and 95), by the subscription of founders' shares which, though philanthropically subscribed, are entitled to a moderate *fixed* interest.

6. Shareholders are of two classes—

(1) those who have relinquished the right of demanding loans from the society; these are called founders (actionnaires fondateurs; patrons would be more appropriate, since they might happen to be members subsequently admitted);

(2) those who have not relinquished the right of borrowing; these are called ordinary members (actionnaires societaires). This second class shall have the sole right of demanding loans.

7. Shareholders are only responsible for the amount of the shares for which they have subscribed.

8. Every ordinary member may give notice of withdrawal in the first six months of the business year to the president of the board of directors.

9. The board of directors will propose at the general meeting the expulsion of every member who nas not faithfully fulfilled his engagements with the society, or who has been convicted of an act which casts doubt on his solvency or morality.

Since the credit society only admits members of the agricultural associations as its own members, any person who leaves such association ceases, *ipso facto*, to be a member of the credit society. The general meeting has the final voice in such matters.

Should the capital have been reduced to the minimum of £200, any shareholder who is then excluded from the society must transfer his share or shares to a third person at the rate of the latest issue of shares.

10. The full share of a retired or expelled member will only be repaid to him after the approval by the general meeting of the annual accounts. But the board may at any time pay to such member one-half of the share value which appeared as due to him in the previous year's account.

A retired or expelled member has no claim to a share of the reserve.

The sums paid by a member upon his shares shall serve as guarantee, by way of pledge, for anything that he may come to owe the society, and shall not be repaid to him until after acquittance of all his dues to the society, but shall be placed to the credit of his account as a set-off against his debt. In no case shall the creditors of a member have any claim on the above sums until the society's dues have been satisfied.

11. Sums due to the society but in dispute shall be considered as past due in making up the accounts, and entered as suspense.

Management.*

12. The society is managed by a board consisting of from six to twelve members chosen from among the founders.

Their shares are inalienable, and shall be stamped (with the society's seal) and deposited in the safe.

13–16. (The appointment of directors by general meeting, the supply of vacancies, the limits of their responsibility, and rules for their meetings.)

17. The board disposes in the interests of the society of all matters not reserved by the law or articles to the general meeting; it admits members and proposes their expulsion; it fixes the maximum advance which may be granted to borrowers and the terms of repayment; regulates the business of deposits and determines the interest payable to depositors: draws up or causes to be drawn up the several statements and accounts and supplies all information or documents required by the law, or to be sent to the commissioners (auditors) and the general meeting.

It may contract loans, with or without mortgage, up to the amount of the shares subscribed by founders; deposits and withdraws funds in public treasuries, transfers, or converts securities; buys and sells, takes on lease or lets immovables; buys and sells movables; collects all sums due to the society and grants receipts for them; defends, carries through, compromises, arbitrates or obtains arbitrations (in contested matters); decides on the investment of surplus funds, &c.

* * * * *

19. The members of the board receive no remuneration.†

If the board appoints a manager he may be paid such amount as the board decides.

Commissioners (Auditors or Controllers).

20. The general meeting will appoint one or more commissioners, with or without salary, whose duty will be to report to the general meeting upon the position of the bank, on its balance sheet, and on the accounts presented by the directors; they shall exercise all the powers with which by law they are invested.‡

In case of necessity they are expressly bound to summon a general meeting.

Should the general meeting omit to appoint these officers, or should one or all of them refuse to act or be prevented from acting, the president of the commercial court may make orders as to such appointments, upon the application of those interested, and after duly notifying the directors.

General Meeting.

21–28. (Provide for the summoning and the duties of the general meeting, but contain little of special interest. Only actual shareholders who have held a share for at least three months prior to

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* Many of the provisions under this head are of the ordinary description and are either omitted or merely abstracted.

† This is one of the most marked features of true co-operative action whether in France, Germany, Italy, England, or America. It is a point expressly insisted on by Raiffeisen and Luzzatti, and in the pamphlet by M. Milcent explanatory of the model articles proposed for French societies which are almost, word for word, the same as the articles here translated, he enlarges on the necessity for gratuitousness of service, and for a maximum of (say) 3 per cent. as dividend upon founders' shares.

‡ *See* sections 32–34 and 43 of the French law of societies.

the meeting may vote; each share entitles to one vote up to a maximum of five. At least one-fourth of the total subscribed capital must be represented at an ordinary general meeting; failing such representation, a second meeting must be called after an interval of at least eight days, and after due notification: such second meeting is valid whatever the amount of capital represented, in so far as the subjects dealt with are those notified for the first meeting. For special meetings, at which alone modifications of the articles and proposals for liquidating the society may be disposed of, half the capital must be represented, and, for dissolution, two-thirds of the votes present must concur.)

BALANCE SHEET AND PROFITS.

29. (Provides for an annual balance sheet.)

30. Each year the net profit, less the amount set apart for the reserve, shall be divided among the shareholders in proportion to their share values.

Founders' shares shall, however, receive not more than 3 per cent., and if the dividend divisible upon ordinary shares exceeds 5 per cent., the board of directors shall have power to form from the surplus an extraordinary reserve which shall be at its disposal in the interests of the members of the society.*

* * * * *

RESERVE.

32. From the net annual profits shall be annually deducted, prior to the declaration of a dividend, such sum as shall be fixed by the general meeting in order to the formation of a reserve.

The amount annually set apart shall not fall below 5 per cent. of the net profits, but such appropriation shall not be obligatory when the reserve shall have reached one-fourth of the nominal capital.

The employment of the reserve fund is determined by the board of directors.†

(The remaining provisions deal with liquidation and disputes and are not of interest.‡)

EXTRACTS FROM THE CODE OF COMMERCE OF BELGIUM.

CO-OPERATIVE SOCIETIES.

* * * * *

85. A co-operative society is one which is composed of members of whom the number or share contributions are variable, and whose shares are non-transferable.

86. A society must consist of at least seven members.

Members may bind themselves jointly or individually in an indefinite amount or up to a fixed sum.

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90. Every co-operative society must keep a register containing on its first page the memorandum of association, and thereafter the following matters:—

(1) The name, business, and address of each member;

(2) The date of admission, retirement or expulsion of each member;

(3) An account of the sums deposited or withdrawn by each member.

This register shall be paged, initialled (on each page), and signed either by one of the judges of the commercial court or by the burgomaster of the commune gratuitously.

For the initials may be substituted the seal of the court or of the communal council.

91. The admission of members is evidenced by the placing of their signatures, with date, over against their names in the register.

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93. Withdrawal is evidenced by a note of the fact entered on the member's pass-book, and on the register opposite to the name of the member. These notes must be signed and dated by the member and by the person who is managing and signing for the society.

94. If the managing member refuses to admit a resignation, the member may declare it before the local justice of the peace, whose clerk must prepare a minute of the fact and within 24 hours transmit such note by registered letter to the society. The minute shall be entered on plain paper and recorded *gratis*.

95. Expulsion is evidenced by a minute drawn up and signed by the managing director, reciting that the expulsion has taken place in conformity with the articles of the society. The minute shall be entered on the register of members, and a copy sent within 48 hours by registered letter to the expelled member.

96. A retiring or expelled member cannot promote the dissolution of the society, but is entitled to his share, as calculated upon the last balance sheet.

97. In case of the decease, failure, insolvency, or suspension from civil rights, of a member, his heirs, creditors or representatives may claim his share as mentioned in section 96. They cannot promote the dissolution of a society.

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* This limitation is deliberately intended to prevent that scramble for high profits and dividends which is found fatal to true co-operation, and highly detrimental both to borrowers and to the safety of operations.

† This appears to be objectionable: the articles should rigidly lay down the limits or objects of such employment; it is on the early formation of a strong, safely invested, and *inalienable* reserve, that much of the success of a society depends. Government paper or paper guaranteed by Government is alone suitable for the investment of reserves.

‡ It will be seen that the articles are very meagre and leave a great deal to the directors; there are absolutely no provisions as to loans. Vol. I, pp. 179–80 may be consulted.

98. Every retiring or expelled member remains personally responsible to the original amount of his liability for five years after withdrawal or expulsion for all the engagements of the society contracted prior to that date, unless any shorter period shall have been prescribed by any other law.

99. The rights of every member are represented by a pass-book which must bear the name of the society, the name, status and address of the member, the date of his admission, and the signature of the member and of the managing director.

It shall mention, date by date, every deposit in and withdrawal of money from the society by the member; such entries must be respectively signed by the managing director or by the member, and are valid as receipts.

The pass-book must also contain the articles of the society.

It is exempt from stamp duty.

100. The personal creditors of a member can only attach the interest or dividends upon shares, and the share itself only upon the dissolution of a society.*

101. Every year at a date to be fixed by the articles, the directors must prepare an inventory of assets and liabilities in the manner prescribed by section 62.

A reserve fund shall be formed in the manner prescribed by the same article.†

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104. The balance sheet shall be transmitted, within 15 days after confirmation, to the registry of the local commercial court.

105. Every six months the directors must send to the same court a list showing alphabetically the names, business, and address of each member: the list shall be dated and certified by the directors who are responsible for any false entry.

106. Within eight days of appointment every manager shall deposit in the same registry an extract from the minute which recites their powers. Every such manager must give or transmit his authenticated signature to the registry.

EXTRACTS‡ FROM THE ARTICLES OF THE POPULAR BANK OF LIÉGE.

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4. *Capital.*—The own capital is fixed at a minimum of £120, and consists—
   (1) of the entrance fees;
   (2) of the compulsory subscriptions to shares which are each of £8;
   (3) of the reserve and other joint funds.

5. The society also deals with extraneous capital, viz.:—
   (1) deposits of members and non-members;
   (2) other funds obtained by borrowing or by re-discount of bills.

6. *Rights and duties of Members.*—Members may take part in the general meeting, each member having but one vote.

7. Members are each obliged—
   (1) to pay an entrance fee;
   (2) to subscribe one share of £8;
   (3) to provide the costs of administration;
   (4) to answer for all liabilities of the society up to the amount of £40 each;
   (5) to obey the present articles and all other resolutions passed in conformity with the articles by the general meeting or by the board of directors.

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11. A member disobeying the rules is liable to expulsion. This may be decreed by the general meeting especially in the following cases:—
   (1) if a member is three months in arrears with his payments;
   (2) if it has been necessary to recover any instalments of loans from him at law;
   (3) if he has incurred any serious criminal penalty.

* * * * *

20. *Management.*—The society is managed by a board consisting of 15 directors, and supervised by three commissioners. Both directors and commissioners must be members, and are appointed by a majority of votes at the general meeting which can, at any time, cancel such appointment.

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28. The commissioners have unlimited powers of supervision and of check over all the operations of the society, and may examine the accounts, correspondence, minute books and all documents belonging to the society. Every week a statement giving an abstract of the assets and liabilities of the society must be furnished to them by the directors. They must submit to the general meeting a report on the results of their supervision, with any suggestions that may seem necessary; they must also describe the method on which they have verified the assets.

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* Compare the law of the French 'Crédit Foncier,' and the laws relating to Building Societies in several States of the United States of America.

† Viz., at least 5 per cent. of the net profits, till the reserve is equal to one-tenth of the share capital.

‡ It is unnecessary to give the full text of these articles, as the bank, though 'popular' is not rural, and most of the provisions are of the usual character.

30. *Loans.*—The amount which may be advanced to members depends upon the financial situation, and is at the discretion of the directors. But no advance exceeding £200 may be made to any member.

31. Loans are made for three months at most, subject to renewal if the sureties do not object.

32. A loan may be refused—
(*a*) for want of sufficient security;
(*b*) if the member fell into arrears with any previous loan, or caused a call to be made on his sureties;
(*c*) if the member has joined the society within one month.

33. If the loan does not exceed twice the amount of the member's subscriptions, the directors may grant a loan upon the personal character and status of the borrower if there is reasonable expectation of due recovery of the loan; the directors will, in such case, chiefly consider the honesty, energy and capacity of the borrower.

* * * * *

36. *Reserve.*—The reserve is formed—
(1) from the entrance fees;
(2) from a share of the profits. Such reserve is the exclusive property of the society (as a corporate body).

37. The amount to be credited from profits to the reserve shall be fixed annually by the general meeting: such amount must be at least one-twentieth of the net profits. But such credit shall not be obligatory when the reserve amounts to one-tenth of the capital of the society.

EXTRACTS* FROM PROPOSED MODEL ARTICLES FOR POPULAR CO-OPERATIVE AGRICULTURAL BANKS, BELGIUM.

1. *Object.*—The society is a co-operative association with the object of procuring for its members, by their collective credit, the capital which they need for agricultural trade or household expenses, and is called 'The Popular Agricultural Bank of Co-operative.' For articles 4, 5, 6, 7, 11, 21, 29, 31, *see* 4, 5, 6, 7, 11, 20, 28, 30 in the articles of the Liége bank.

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32. Loans are made for six months at most, subject to renewal by the directors if the sureties raise no objection.

For articles 33, 34, 37, 38, *see* articles 32, 33, 36, 37 in the articles of the Liége bank.

RULES OF THE AGRICULTURAL BANK OF SEGOVIA (SPAIN).†

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11. The loans which may be made are of three classes—
(1) on mortgage of rural and urban properties;
(2) on the security of crops and stock;
(3) on public securities.

Mortgages.

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14. Mortgages may be either repayable by annuity or in lump: the former is repayable by a fixed annuity including interest and sinking fund.

15. In either case the borrower may repay the loan in whole or in part at any time; if only part paid, the annuity will be adjusted accordingly. But the borrower paying in advance must also pay a commission of 1 per cent. on the amount repaid.‡

16. The bank will only lend on first mortgage; it will however lend for paying off a prior loan if the bank thereby obtains position as first mortgagee.

17. Loans will only be granted up to 40 per cent. of the real value of a property.

18. (Mentions the documents, title-deeds, &c., to be produced by a candidate.)

19. (Provides for a valuation of the property and for the deposit of expenses.)

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22. Interest for such loans is fixed by the board of directors with reference to the security offered.

23. Failure to pay interest for two successive half-years will involve the calling in of the loan with all interest and costs.

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* The full text of these articles is to be found in a work entitled 'Le Crédit Agricole,' by M. Léon D'Andrimont, the celebrated advocate, founder, and promoter of co-operative work in Belgium.

† The nature of this society and of its articles and rules in general are sufficiently indicated on page 183 of Vol. I. The rules relating to loans are here abstracted.

‡ This is to obviate the chance of any loss to the bank in finding a re-investment for the amount.

24. If the title tendered by a landholder is not complete, but is only possessory, two good sureties will be required in addition to the mortgage.

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26. Mortgagors of town properties must agree in their contracts to inform the directors within fifteen days of any deterioration or depreciation to the property, or of any judicial order which may affect the possession of the property; any failure in this respect will entail cancelment of the agreement.

27. All expenses involved in making the loan shall be borne by the borrowers. But the bank will adopt every possible means to render such expenses equitable and moderate, and to avoid all that may be unnecessary.

AGRICULTURAL LOANS.

28 and 29. These loans shall be for periods not exceeding one customary agricultural year, viz., from 24th August to the same date in the next year.

On whatever date the loan be contracted, the period shall be considered as one complete year.

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30. The board of directors will fix the rates of interest.

31. A land-owner requiring a loan of this character must produce his title-deeds and two good sureties. A tenant must produce his lease-deed, his receipts for the payment of his rent for the past ten years, or in default a certificate from the landlord that he has punctually paid his rental; also his receipts for the land-tax (or cess, contribution territorial); also two good sureties.

Every borrower constitutes himself by the contract a manager and bailee for the property which is the subject of the loan until the loan shall have been fully paid up. If he fails in any part of his contract, he will be liable to the penalties of section 2, heading 4, chapter 13 of the second book of the Penal Code. The above condition will be expressly entered in the loan contract.

32. Payment of the amount lent shall be made in cash: but may be realized (repaid) also in grain at the request of the borrower.

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BUILDING SOCIETIES ACT.*

[37 & 38 VICT., CH. 42.]

ARRANGEMENT OF CLAUSES.

Clauses.

1. Short title.
2. Commencement of Act.
3. Definition of registrar.
4. Definition of court.
5. Definition of terminating and permanent societies.
6. Application to Scotland.
7. Repeal of 6 & 7 Will. IV., c. 32.
8. Societies under former Act to continue.
9. Incorporation of societies.
10. Enrolments to be sent to registrar.
11. Where enrolled transcript of rules not transmitted.
12. Certificate of incorporation how to be granted.
13. Purpose for which societies may be established.
14. Limitation of liability of members.
15. Power to borrow money.
16. Matters to be set forth in the rules.
17. Rules to be made. Registration of rules.
18. Alteration of rules.
19. Rules may be made to provide forms of conveyance, &c.
20. Evidence of registration.
21. Rules to be binding on members and others.
22. Change of name.
23. Officers to give security.
24. Officers to account.
25. Investment of surplus funds.
26. When trustees are absent, &c., registrars may order stock to be transferred.
27. Property of the society vested without conveyance.
28. As to copyholds.
29. Payment of sums not exceeding £50 when members or depositors die intestate. Payment to persons appearing to be next of kin declared valid.
30. Provision for the case of a member dying intestate leaving an infant heir.
31. Punishment of fraud in withholding money, &c.
32. Proceedings necessary for the termination or dissolution of a society.
33. Societies may unite with others, or one society may transfer its engagements to another.

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* *See* Vol. I, pp. 189–91.

It has been found impossible, from want of time, to rewrite the section on Building Societies, as promised in the footnote to page 189 of Vol. I.

34. Determination of disputes by arbitration. Court may order compliance with the decision of arbitrators. Determination of disputes by registrar.
35. Determination of disputes by court.
36. Determination to be final.
37. Buildings for the purpose may be purchased or leased.
38. Minors may be elected members.
39. Shares may be held by two or more persons.
40. Societies shall make annual audits and statements of the funds to the members.
41. Exemption from stamp duties.
42. Receipt endorsed on mortgage to be sufficient discharge without re-conveyance.
43. Penalties.
44. Regulations.
SCHEDULE.

CHAPTER 42.

An Act to consolidate and amend the Laws relating to Building Societies. [30TH JULY 1874.]

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1. This Act may be cited as The Building Societies Act, 1874.

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3. The registrar in this Act means (except where otherwise expressed) the registrar for the time being of friendly societies in England, Scotland, or Ireland, as the case may be, who shall, for the purposes of this Act, be the registrar of building societies.

4. The court in this Act means,—
In England, the county court of the district in which the chief office or place of meeting for the business of the society is situate;
In Scotland, the sheriff's court of the county in which such office or place of meeting is situate; and
In Ireland, the civil bill court within the jurisdiction of which such office or place of meeting is situate.

5. A terminating society in this Act means a society which by its rules is to terminate at a fixed date, or when a result specified in its rules is attained; a permanent society means a society which has not by its rules any such fixed date or specified result at which it shall terminate.

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13. Any number of persons may establish a society under this Act, either terminating or permanent, for the purpose of raising by the subscriptions of the members a stock or fund for making advances to members out of the funds of the society upon security of freehold, copyhold, or leasehold estate, by way of mortgage; and any society under this Act shall, so far as is necessary for the said purpose, have power to hold land with the right of foreclosure, and may from time to time raise funds by the issue of shares of one or more denominations, either paid up in full or to be paid by periodical or other subscriptions, and with or without accumulating interest, and may repay such funds when no longer required for the purposes of the society: Provided always, that any land to which any such society may become absolutely entitled by foreclosure, or by surrender, or other extinguishment of the right of redemption, shall as soon afterwards as may be conveniently practicable be sold or converted into money.

14. The liability of any member of any society under this Act in respect of any share upon which no advance has been made shall be limited to the amount actually paid or in arrear on such share, and in respect of any share upon which an advance has been made shall be limited to the amount payable thereon under any mortgage or other security or under the rules of the society.

15. With respect to the borrowing of money by societies under this Act, the following provisions shall have effect:—
(1) Any society under this Act may receive deposits or loans, at interest, within the limits in this section provided, from the members or other persons, or from corporate bodies, joint stock companies, or from any terminating building society, to be applied to the purposes of the society:
(2) In a permanent society the total amount so received on deposit or loan and not repaid by the society shall not at any time exceed two-thirds of the amount for the time being secured to the society by mortgages from its members:
(3) In a terminating society the total amount so received and not repaid may either be a sum not exceeding such two-thirds as aforesaid, or a sum not exceeding twelve months subscriptions on the shares for the time being in force:
(4) Any deposits with or loans to a society under this Act, made before the commencement of this Act in accordance with its certified rules, are hereby declared to be valid and binding on the society, but no further deposits or loans shall be received by such society, except within the limits provided by this section:
(5) Every deposit book or acknowledgment or security of any kind given for a deposit or loan by a society shall have printed or written therein or thereon the whole of the fourteenth and fifteenth sections of the present Act.

16. The rules of every society hereafter established under this Act shall set forth,—
(1) The name of the society, and chief office or place of meeting for the business of the society:
(2) (*Repealed by the Act of* 1894, *q.v.*)

(3) The purposes to which the funds of the society are to be applied, and the manner in which they are to be invested:
(4) (*Repealed by the Act of* 1894, *q.v.*)
(5) The manner of altering and rescinding the rules of the society, and of making additional rules:
(6) The manner of appointing, remunerating, and removing the board of directors or committee of management, auditors, and other officers:
(7) The manner of calling general and special meetings of the members:
(8) Provision for an annual or more frequent audit of the accounts, and inspection by the auditors of the mortgages and other securities belonging to the society:
(9) Whether disputes between the society and any of its members, or any person claiming by or through any member, or under the rules, shall be settled by reference to the court, or to the registrar, or to arbitration:
(10) Provision for the device, custody, and use of the seal of the society, which shall in all cases bear the registered name thereof:
(11) Provision for the custody of the mortgage deeds and other securities belonging to the society:
(12) The powers and duties of the board of directors or committee of management and other officers:
(13) The fines and forfeitures to be imposed on members of the society:
(14) The manner in which the society, whether terminating or permanent, shall be terminated or dissolved.

17. The persons intending to establish a society under this Act shall transmit to the registrar two copies of the rules agreed upon by them for the government of the society, signed by three of such persons and by the intended secretary or other officer; and the registrar, if he find that the rules contain all the provisions set forth in section sixteen of this Act, and that they are in conformity with this Act, shall return one copy of the rules to the secretary or other officer of the society, with a certificate of incorporation, and shall retain and register the other copy; provided that no society shall be registered under this Act in a name identical with that in which a subsisting society is already registered, or so nearly resembling the same as to be calculated to deceive, unless such subsisting society is in course of being terminated or dissolved, and consents to such registration. The society shall supply to any person requiring the same a complete printed copy of the rules, with a copy of the certificate of incorporation appended thereto, and shall be entitled to charge for every such printed copy of rules a sum not exceeding one shilling.

18. Any society under this Act, certified previously to the passing of this Act, may alter or rescind any rule or make any additional rule by the vote of three-fourths of the members present at a special meeting called for the purpose, of which meeting notice, specifying the proposed alteration, rescission, or addition shall be given to the members in the manner provided by the rules of the society or in the absence of such rules, by letters sent through the post seven days previous to such meeting; and any society hereafter established may alter or rescind any rule, or make an additional rule, in the manner its rules direct; and every society under this Act altering or rescinding any rule, or making an additional rule, shall forward two copies of every resolution for rescission of a rule, and of every alteration of or addition to its rules, signed by three members and the secretary, and a statutory declaration of an officer of the society that the provisions of this section have been complied with, to the registrar, who, if he find that such alteration, addition, or rescission is in conformity with this Act, shall return one of the copies to the secretary or other officer of the society with a certificate of registration, and retain and register the other copy.

19. Any society under this Act, in a schedule to its rules, may describe the forms of conveyance, mortgage, transfer, agreement, bond, security for deposit or loan, or other instrument necessary for carrying its purposes into execution.

20. Any certificate of incorporation or of registration, or other document relating to a society under this Act, purporting to be signed by the registrar, shall, in the absence of any evidence to the contrary, be received by the court, and by all courts of law and equity and elsewhere, without proof of the signature; and a printed copy of the rules of a society, certified by the secretary or other officer of the society to be a true copy of its registered rules, shall, in the absence of any evidence to the contrary, be received as evidence of the rules.

21. The rules of a society under this Act shall be binding on the several members and officers of the society, and on all persons claiming on account of a member, or under the rules, all of whom shall be deemed and taken to have full notice thereof.

22. A society under this Act may change its name by resolution of three-fourths of the members present at a meeting called for the purpose, provided that the new name is not identical with that of any society previously registered and still subsisting, or so nearly resembling the same as to be calculated to deceive, unless such subsisting society is in course of being terminated or dissolved, and consents to such registration. Notice of the change of name shall be sent to the registrar and registered by him, and he shall give a certificate of registration. Such change of name shall not affect any right or obligation of the society, or of any member thereof, or other person concerned.

23. Every officer of a society under this Act having the receipt or charge of any money belonging to the society shall, before taking upon himself the execution of his office, become bound with one sufficient surety at the least, in a bond according to the form set forth in the schedule to this Act, or give the security of a guarantee society, or such other security as the society direct, in such sum as the society require, conditioned for rendering a just and true account of all moneys received and paid by him on account of the society, and for payment of all sums of money due from him to the society, at such times as its rules appoint, or as the society require him to do so.

24. Every such officer, his executors or administrators, shall, upon demand made, or notice in writing given or left at his last or usual place of residence, give in his account as may be required by

the board of directors or committee of management of the society, to be examined and allowed or disallowed by them, and shall, on the like demand or notice, pay over all the moneys remaining in his hands, and deliver all securities and effects, books, papers, and property of the society in his hands or custody, to such person as the society appoint; and in case of any neglect or refusal to deliver such account, or to pay over such moneys, or to deliver such securities and effects, books, papers, and property, in manner aforesaid, the society may sue upon the bond, or may apply to the court, who may proceed thereupon in a summary way, and make such order thereon as to the court in its discretion shall seem just, which order shall be final and conclusive.

25. Any society under this Act may from time to time, as the rules permit, invest any portion of the funds of the society, not immediately required for its purposes, upon real or leasehold securities, or in the public funds, or in or upon any parliamentary stock or securities, or in or upon any stock or securities payment of the interest on which is guaranteed by authority of Parliament, or in the case of terminating societies, with other societies under this Act; and for the purpose of investments in the public funds or upon security of copyhold or customary estate, the society, or the board of directors or committee of management thereof, may from time to time appoint and remove trustees.

26. (Permits the registrar to transfer stock from absent, bankrupt, lunatic, &c., trustees to other trustees on application by the society and on proper proof.)

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29. If any member of or depositor with a society under this Act having in the funds thereof a sum of money not exceeding fifty pounds shall die intestate, then the amount due may be paid to the person who shall appear to the directors or committee of management of the society to be entitled under the Statute of Distributions to receive the same, without taking out letters of administration, upon the society receiving satisfactory evidence of death and a statutory declaration that the member or depositor died intestate, and that the person so claiming is entitled as aforesaid: Provided that whenever the society after the decease of any member or depositor has paid any such sum of money to the person who at the time appeared to be entitled to the effects of the deceased under the belief that he had died intestate the payment shall be valid and effectual with respect to any demand from any other person as next of kin or as the lawful representative of such deceased member or depositor against the funds of the society, but nevertheless such next of kin or representative shall have his lawful remedy for the amount of such payment as aforesaid against the person who has received the same.

30. Whenever a member of a society under this Act, having executed a mortgage to the society, shall die intestate, leaving an infant heir or infant coheiress, it shall be lawful for the said society, after selling the premises so mortgaged to them, to pay to the administrator or administratrix of the deceased member any money, to the amount of one hundred and fifty pounds, which shall remain in the hands of the said society after paying the amount due to the society and the costs and expenses of the sale, without being required to pay the same into the Post Office Savings Bank, as provided by the Trustees Relief Act, and the Acts amending or extending the same. The said sum of one hundred and fifty pounds to be considered as personal estate, and liable to duty accordingly.

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32. A society under this Act may terminate or be dissolved—

(1) Upon the happening of any event declared by its rules to be the termination of the society.

(2) By dissolution in manner prescribed by its rules.

(3) By dissolution with the consent of three-fourths of the members, holding not less than two-thirds of the number of shares in the society, testified by their signatures to the instrument of dissolution. The instrument of dissolution shall set forth—

(*a*) the liabilities and assets of the society in detail;

(*b*) the number of members, and the amount standing to their credit in the books of the society;

(*c*) the claims of depositors and other creditors, and the provision to be made for their payment;

(*d*) the intended appropriation or division of the funds and property of the society;

(*e*) the names of one or more persons to be appointed trustees for the special purpose, and their remuneration.

Alterations in the instrument of dissolution may be made with the like consent, testified in the same manner. The instrument of dissolution and all alterations therein shall be registered in the manner provided for the registration of rules, and shall be binding upon all the members of the society.

(4) By winding-up, either voluntarily under the supervision of the court or by the court, if the court shall so order, on the petition of any member authorised by three-fourths of the members present at a general meeting of the society specially called for the purpose to present the same on behalf of the society, or on the petition of any judgment creditor for not less than fifty pounds, but not otherwise. General orders for regulating the proceedings of the court under this section may be from time to time made by the authority for the time being empowered to make general orders for the court.

Notice of the commencement and termination of every dissolution or winding-up shall be sent to the registrar, and registered by him.

33. Two or more societies under this Act may unite and become one society, with or without any dissolution or division of the funds of such societies or either of them, or a society under this Act may transfer its engagements to any other such society, upon such terms as shall be agreed upon by three-fourths of the members (holding not less than two-thirds of the whole number of shares) of each of such societies present at general meetings respectively convened for the purpose; but no such transfer shall prejudice any right of any creditor of either society. Notice of every such union or transfer shall be sent to the registrar, and registered by him.

34. Where the rules of a society under this Act direct disputes * to be referred to arbitration, arbitrators shall be named and elected in the manner such rules provide, or, if there be no such provision, at the first general meeting of the society, none of the said arbitrators being beneficially interested, directly or indirectly, in its funds; of whom a certain number, not less than three, shall be chosen by ballot in each such case of dispute, the number of the said arbitrators and mode of ballot being determined by the rules of the society; the names of such arbitrators shall be duly entered in the minute book of the society, and, in case of the death or refusal or neglect of any of the said arbitrators to act, the society, at a general meeting, shall name and elect an arbitrator to act in the place of the arbitrator dying, or refusing or neglecting to act; and whatever award shall be made by the arbitrators or the major part of them, according to the true purport and meaning of the rules of the society, shall determine the dispute; and should either of the parties to the dispute refuse or neglect to comply with or conform to such award within a time to be limited therein, the court, upon good and sufficient proof being adduced of such award having been made, and of the refusal of the party to comply therewith, shall enforce compliance with the same upon the petition of any person concerned. Where the parties to any dispute arising in a society under this Act agree to refer the dispute to the registrar, or where the rules of the society direct disputes to be referred to the registrar, the award of the registrar shall have the same effect as that of arbitrators.

35. The court may hear and determine a dispute in the following cases:—

(1) If it shall appear to the court, upon the petition of any person concerned, that application has been made by either party to the dispute to the other party, for the purpose of having the dispute settled by arbitration under the rules of the society, and that such application has not within forty days been complied with, or that the arbitrators have refused or for a period of twenty-one days have neglected to make any award.

(2) Where the rules of the society direct disputes to be referred to the court or to justices.

36. Every determination by arbitrators or by the court or by the registrar under this Act of a dispute shall be binding and conclusive on all parties, and shall be final to all intents and purposes, and shall not be subject to appeal, and shall not be removed or removable into any court of law, or restrained or restrainable by the injunction of any court of equity; provided always, that the arbitrators, or the registrar, or the court, as the case may be, may, at the request of either party, state a case for the opinion of the Supreme Court of Judicature on any question of law, and shall have power to grant to either party to the dispute such discovery, as to documents and otherwise, as might now be granted by any court of law or equity, such discovery to be made on behalf of the society by such officer of the society as the arbitrators, registrar, or court may determine.

37. A society under this Act may purchase, build, hire, or take upon lease any building for conducting its business, and may adapt and furnish the same, and may purchase or hold upon lease any land for the purpose only of erecting thereon a building for conducting the business of the society, and may sell, exchange, or let such building, or any part thereof.

38. Any person under the age of twenty-one years may be admitted as a member of any society under this Act, the rules of which do not prohibit such admission, and may give all necessary acquittances; but during his nonage he shall not be competent to vote or hold any office in the society.

39. Two or more persons may jointly hold a share or shares in any society under this Act; and all shares held jointly by any two or more persons in any society subsisting at the time appointed for the commencement of this Act, the rules whereof shall not prohibit such joint holding, shall be deemed to be lawfully so held.

40. The secretary or other officer of every society under this Act shall, once in every year at least, prepare an account of all the receipts and expenditure of the society since the preceding statement, and a general statement of its funds and effects, liabilities and assets, showing the amounts due to the holders of the various classes of shares respectively, to depositors and creditors for loans, and also the balance due or outstanding on their mortgage securities (not including prospective interest), and the amount invested in the funds or other securities; and every such account and statement shall be attested by the auditors, to whom the mortgage deeds and other securities belonging to the society shall be produced, and such account and statement shall be countersigned by the secretary or other officer; and every member, depositor, and creditor for loans shall be entitled to receive from the society a copy of such account and statement, and a copy thereof shall be sent to the registrar within fourteen days after the annual or other general meeting at which it is presented, and another copy thereof shall be suspended in a conspicuous place in every office of the society under this Act.

41. No rules of any society under this Act, nor any copy thereof, nor any power, warrant, or letter of attorney granted or to be granted by any person as trustee for the society for the transfer of any share in the public funds standing in his name, nor any receipts given for any dividend in any public stock or fund, or interest of exchequer bills, nor any receipt, nor any entry in any book of receipt, for money deposited in the funds of the society, nor for any money received by any member, his executors or administrators, assigns, or attorneys, from the funds of the society, nor any transfer of any share, nor any bond or other security to be given to or on account of the society, or by any officer thereof, nor any order on any officer for payment of money to any member, nor any appointment of any agent, nor any certificate or other instrument for the revocation of any such appointment, nor any other instrument or document whatever required or authorised to be given, issued, signed, made, or produced in pursuance of this Act, or of the rules of the society, shall be subject or liable to or charged with any stamp duty or duties whatsoever, provided that the exemption shall not extend to any mortgage.

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* "The Building Societies Act of 1884 was a short Act passed to define the meaning of the word 'disputes' when "appearing in the building societies' statutes or the rules of a society. It provides that it shall be deemed to refer "only to disputes between a society and a member, and shall not, in the absence of an express provision in the rules "of the society, apply to any dispute between the society and a member as to the construction or effect of any "mortgage deed, or any contract contained in any document other than the rules of the society, and shall not prevent "the members of any society from obtaining in the ordinary course of law any remedy in respect of any such "mortgage or contract." (From 'The Building Societies Act, 1894,' by Bowen and Warley.)

42. When all moneys intended to be secured by any mortgage or further charge given to a society under this Act in England or Ireland have been fully paid or discharged, the society may endorse upon or annex to such mortgage or further charge a re-conveyance of the mortgaged property to the then owner of the equity of redemption, or to such persons and to such uses as he may direct, or a receipt under the seal of the society, countersigned by the secretary or manager, in the form specified in the schedule to this Act, and such receipt shall vacate the mortgage or further charge or debt, and vest the estate of and in the property therein comprised in the person for the time being entitled to the equity of redemption, without any re-conveyance or re-surrender whatever; and if the said mortgage or further charge has been registered under any Act for the registration or record of deeds or titles, the registrar under such Act, or his deputy or assistant registrar, or the recording officer, as the case may be, or, in the case of copyholds or lands of customary tenure, if the mortgage or further charge has been entered on any court rolls, the steward of the manor or his deputy respectively, shall, on production of such receipt, verified by oath of any person, make an entry opposite the entry of the charge or mortgage, to the effect that such charge or mortgage is satisfied, and shall grant a certificate, either on the said mortgage or charge or separately, to the like effect, which certificate shall be received in evidence in all courts and proceedings without any further proof, and which entry shall have the effect of clearing the register or record of such mortgage; and the registrar or recording officer shall be entitled to a fee of two shillings and six pence for making the said entry and granting the said certificate, and such fee shall in Ireland be paid by stamps, and applied as the other fees of the Registry of Deeds Office and Record of Title Office are now by law directed to be paid and applied.

43. If any society hereafter formed under this Act, or any person representing themselves to be a society under this Act, commence business without first obtaining a certificate of incorporation under this Act, or if any society under this Act makes default in forwarding to the registrar any returns or information by this Act required, or in inserting in any deposit book or acknowledgment or security for loan the matters required by section fifteen of this Act to be inserted therein, or makes a return wilfully false in any respect, the person or persons by whom business shall have been so commenced, or by whom such default shall have been made, or who shall have made such wilfully false return, shall be liable for every day business is so carried on, or for every such default or false return, upon summary conviction before justices at the complaint of the registrar, to a penalty not exceeding five pounds. If any society under this Act receives loans or deposits in excess of the limits prescribed by this Act, the directors or committee of management of such society receiving such loans or deposits on its behalf shall be personally liable for the amount so received in excess.

44. One of Her Majesty's Principal Secretaries of State may from time to time make regulations respecting the fees, if any, to be paid for the transmission, registration, and inspection of documents under this Act, and generally for carrying this Act into effect. The registrar shall give his certificates in the forms contained in the schedule to this Act respectively.

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BUILDING SOCIETIES ACT, 1894.*

[57 & 58 VICT., CAP. 47].

1. (Prescribes certain matters to be set forth in the articles.)

2. (1) Every annual account and statement under section 40 of the Building Societies Act, 1874, shall be made up to the end of the official year of the society to which it relates, and shall be in such form and shall contain such particulars as the Chief Registrar of Friendly Societies may from time to time, with the approval of a Secretary of State, direct, either generally or with respect to any society or class of societies. Provided that every such account and statement shall set forth—

(*a*) With respect to mortgages to the society upon each of which the present debt does not exceed five thousand pounds (not being mortgages where the repayments are upwards of twelve months in arrear, or where the property has for upwards of twelve months been in possession of the society), the number of all such mortgages, and the aggregate amount owing thereon at the date of the account or statement, such information being given separately in respect of each of the four following classes:—

(i) Where the debt does not exceed five hundred pounds;
(ii) Where the debt exceeds five hundred pounds and does not exceed one thousand pounds;
(iii) Where the debt exceeds one thousand pounds and does not exceed three thousand pounds:
(iv) Where the debt exceeds three thousand pounds and does not exceed five thousand pounds.

(*b*) With respect to any other mortgage to the society, the particulars shown by the appropriate tabular form in the First Schedule to this Act.

(2) Every auditor, in attesting any such annual account or statement, shall either certify that it is correct, duly vouched, and in accordance with law, or specially report to the society in what respect he finds it incorrect, unvouched, or not in accordance with law, and shall also certify that he has at that audit actually inspected the mortgage deeds and other securities belonging to the society, and shall state the number of properties with respect to which deeds have been produced to and actually inspected by him.

(3) A copy of every such annual account and statement shall be sent to the registrar within fourteen days after the annual or other general meeting at which it is presented, or within three after the expiration of the official year of the society, whichever period expires first.

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* This Act has been found necessary to amend certain defects and supply omissions in the principal Act of 1874. It will be observed that the amendments are all in the direction of more stringent supervision, whether by auditors or by the registrar; members are also given greater power of obtaining inspections.

3. Notwithstanding anything in the rules of any society under the Building Societies Acts, one at least of the auditors of the society shall be a person who publicly carries on the business of an accountant.

4. (1) The registrar may, if he thinks fit, of the application of ten members of a society under the Building Societies Acts, each of whom has been a member of the society for not less than twelve months immediately preceding the date of the application, appoint an accountant or actuary to inspect the books of the society, and to report thereon.

(2) Provided as follows :—

(*a*) The applicants shall deposit with the registrar such sum as a security for the costs of the proposed inspection as the registrar may require ; and

(*b*) All expenses of and incidental to any such inspection shall be defrayed by the applicants, or out of the funds of the society, or by the members or officers, or former members or officers, of the society in such porportions as the registrar may direct.

(3) A person appointed under this section shall have power to make copies of any books of the society and to take extracts therefrom at all reasonable hours, at the registered office of the society, or at any place where the books are kept.

(4) The registrar shall communicate the results of any such inspection to the applicants and to the society.

5. (1) The registrar may, on the application of one-tenth of the whole number of members of a society under the Building Societies Acts, or of one hundred members in the case of a society consisting of more than one thousand members, and with the consent of the Secretary of State, either—

(*a*) appoint an inspector to examine into and report on the affairs of the society ; or

(*b*) call a special meeting of the society.

(2) Provided as follows :—

(*a*) The application under this section shall be supported by such evidence as the registrar may direct for the purpose of showing that the applicants have good reason for requiring the inspection to be made or the meeting to be called, and that they are not actuated by malicious motives in their application ; and

(*b*) Such notice of the application shall be given to the society as the registrar may direct ; and

(*c*) The registrar shall require the applicants to give security for the costs of the proposed inspection or meeting before the inspector is appointed or the meeting is called ; and

(*d*) All expenses of and incidental to the inspection or meeting shall be defrayed by the applicants, or out of the funds of the society, or by the members or officers, or former members or officers of the society, in such proportions as the registrar may direct.

(3) An inspector appointed under this section may require the production of all or any of the books, accounts, securities, and documents of the society, and may examine on oath its officers, members, agents, and servants in relation to its business, and may administer an oath accordingly.

(4) The registrar may direct at what time and place a special meeting under this section is to be held, and what matters are to be discussed and determined at the meeting, and the meeting shall have all the powers of a meeting called according to the rules of the society, and shall in all cases have power to appoint its own chairman, any rule of the society to the contrary notwithstanding.

(5) The registrar may, without any application by members, but with the consent of the Secretary of State given on each occasion, exercise the powers given by this section in the following cases :—

(*a*) Where a society has, for two months after notice, failed to make any return required by the Building Societies Acts ;

(*b*) Where a society has, for two months after notice, failed to correct or complete any such return ;

(*c*) Where evidence is furnished by a statutory declaration of not less than three members of a society, of facts which, in the opinion of the registrar, call for investigation, or for recourse to the judgment of a meeting of the members. Provided that the registrar shall forthwith, on receipt of such declaration, send a copy thereof to the society, and such society shall, within fourteen days from the sending of such copy, be entitled to give the registrar an explanatory statement in writing, by way of reply thereto.

6. (The registrar may, where a society has been registered by fraud or mistake, or where it exists for an illegal purpose, or where it wilfully, and after notice, violates the provisions of the Building Societies Acts, cancel or suspend the registry of the society, after two months' notice in writing, and shall advertise such cancelment or suspension : appeal lies by the society to the High Court. During suspension or on cancelment all privileges are withdrawn from the society, but its liabilities continue.)

7. (1) On the application in writing of one-tenth of the whole number of members of any society under the Building Societies Acts, or of one hundred members in the case of a society of more than one thousand members, setting forth that the society is unable to meet the claims of its members, and that it would be for their benefit that it should be dissolved, and requesting an investigation into the affairs of the society with a view to the dissolution thereof, the registrar may investigate the affairs of the society, but shall before so doing give not less than two months' previous notice in writing to the society at its registered chief office or place of meeting.

(2) If on such investigation it appears that the society is unable to meet the claims of its members, and that it would be for their benefit that it shoud be dissolved, the registrar may, if he considers it expedient so to do, award that the society be dissolved, and shall direct in what manner the affairs of the society are to be wound up. Provided that the registrar may suspend his award for such period as he may deem necessary to enable the society to make such alterations of its rules as will in his judgment prevent the necessity of the award being made.

(3) The registrar shall within twenty-one days after the making of any award for dissolution under this section, cause notice thereof to be advertised in the Gazette, and in some newspaper circulating in the county in which the registered chief office or place of meeting of the society is situate.

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10. When a society under the Building Societies Acts is being dissolved or wound up, a member to whom an advance has been made under any mortgage or other security or under the rules of the society, shall not be liable to pay the amount payable under the mortgage or other security or rules, except at the time or times and subject to the conditions therein expressed. This section shall come into operation immediately after the passing of this Act.

11. If a society under the Building Societies Acts is dissolved in manner prescribed by its rules or in pursuance of the consent of three-fourths of the members, the liquidators, trustees, or other persons having the conduct of the dissolution shall, within twenty-eight days from the termination of the dissolution, send to the registrar an account and balance sheet signed and certified by them as correct, and showing the assets and liabilities of the society at the commencement of the dissolution and the mode in which those assets and liabilities have been applied and discharged, and in default of so doing shall each be liable to a fine not exceeding five pounds for every day during which the default continues.

12. (1) A society under the Building Societies Acts established after the passing of this Act shall not cause or permit the applicants for advances to ballot for precedence or in any way make the granting of an advance depend on any chance or lot.

13. (1) A society under the Building Societies Acts shall not advance money on the security of any freehold, copyhold, or leasehold estate which is subject to a prior mortgage, unless the prior mortgage is in favour of the society making the advance.

14. In calculating the amount for the time being secured to a society under the Building Societies Acts by mortgages from its members for the purpose of ascertaining the limits of its power to receive deposits or loans at interest, the amount secured on properties the payments in respect of which were upwards of twelve months in arrear at the date of the society's last preceding annual account and statement, and the amount secured on properties of which the society had been twelve months in possession at the date of such account and statement shall be disregarded.

15. (1) A society under the Building Societies Acts shall not use any name or title other than its registered name, and shall not accept any deposit except on the terms that not less than one month's notice may be required by the managers of the society before repayment or withdrawal.

(2) If a society contravenes this section, the society, and also every director or member of the committee of management, who is a party to the contravention, shall be liable on summary conviction to a fine not exceeding ten pounds, and in the case of a continuing offence to an additional fine not exceeding ten pounds for every week during which the offence continues.

21. If any society under the Building Societies Acts neglects or refuses—

(*a*) to give any notice, send any return or document, or do or allow to be done anything which the society is by those Acts required to give, send, do or allow to be done; or,

(*b*) to do any act or furnish any information required for the purposes of those Acts by the registrar or by an inspector; the society, and also every officer thereof bound by the rules thereof to fulfil the duty whereof a breach has been so committed, and if there is no such officer, then every member of the committee of management or board of directors of the society, unless it appears that he was ignorant of or attempted to prevent the breach, shall for each offence be liable, on summary conviction, to a fine not exceeding twenty pounds, and in the case of a continuing offence, to an additional fine not exceeding five pounds for every week during which the offence continues.

23. No director, secretary, surveyor, solicitor, or other officer of a society under the Building Societies Acts shall, in addition to the remuneration prescribed or authorised by the rules of the society, receive from any other person any gift, bonus, commission, or benefit, for or in connexion with any loan made by the society, and any person paying or accepting any such gift, bonus, commission, or benefit, shall be liable on summary conviction to a fine not exceeding fifty pounds, and, in default of payment, to be imprisoned with or without hard labour for any time not exceeding six months, and the person accepting any such gift, bonus, commission, or benefit, shall, as and when directed by the court by whom he is convicted, pay over to the society the amount or value of such gift, bonus, commission, or benefit, and in default of such payment shall be liable to be imprisoned with or without hard labour for any time not exceeding six months.

FIRST SCHEDULE.

PART I.

Particulars to be set forth in the case of a mortgage where the repayments are not upwards of twelve months in arrears, and the property has not been upwards of twelve months in possession of the society, and where the present debt exceeds £5,000.

1	2	3	4	5	6	7	8	9
Date of advance.	Whether subject to any prior mortgage or charge. If so, what amount.	Whether freehold, copyhold, or leasehold.	Original valuation of property.	Amount of advance.	Present debt.	Amount of payments in advance.	Amount of payments in arrear.	Observations.

PART II.

Particulars to be set forth in the case of property of which the society has been upwards of twelve months in possession :—

1	2	3	4	5	6	7	8	9	10	11	12
Roll Numbers.	Date of advance.	Date when possession was taken.	Whether subject to any prior mortgage or charge. If so, what amount.	Whether freehold, copyhold, or leasehold.	Amount of advance.	Original valuation of property.	Debt when possession was taken.	Present amount included in assets.	Gross income for the year.	Outgoings for the year.	Observations.

PART III.

Particulars to be set forth in the case of a mortgage where the repayments are upwards of twelve months in arrear and the property has not been upwards of twelve months in possession of the society :—

1	2	3	4	5	6	7	8	9
Date of advance.	Whether subject to any prior mortgage or charge. If so, what amount.	Whether freehold, copyhold, or leasehold.	Number of months in arrear.	Original valuation of property.	Amount of advance.	Present debt.	Amount of payments in arrear.	Observations.

INDUSTRIAL AND PROVIDENT SOCIETIES ACT, 1893.

[56 & 57 VICT., CH. 39.]

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CHAPTER 39.

An Act to consolidate and amend the Laws relating to Industrial and Provident Societies.

[12TH SEPTEMBER 1893.]

Preliminary.

1. This Act may be cited as the Industrial and Provident Societies Act, 1893.*

* * * * *

3. Every incorporated society now existing, which has been registered or certified under any Act relating to industrial and provident societies, shall be deemed to be a society registered under this Act, and its rules shall, so far as the same are not contrary to any express provision of this Act, continue in force until altered or rescinded.

Registration of Societies.

4. A society which may be registered under this Act (herein called an industrial and provident society) is a society for carrying on any industries, businesses, or trades specified in or authorised by its rules, whether wholesale or retail, and including dealings of any description with land. Provided that—

(*a*) no member other than a registered society shall have or claim any interest in the shares of the society exceeding two hundred pounds, and

(*b*) in regard to the business of banking, the society shall be subject to the provisions hereinafter contained.

5. With respect to the registry of new societies, the following provisions shall have effect:—

(1) No society can be registered under this Act which does not consist of seven persons at least;

(2) For the purpose of registry an application to register the society, signed by seven members and the secretary, and two printed copies of the rules, shall be sent to the registrar;

(3) No society shall be registered under a name identical with that under which any other existing society is registered, or so nearly resembling such name as to be likely, or in any name likely, in the opinion of the registrar, to mislead the members or the public as to its identity, and no society shall change its name except in the manner hereinafter provided;

(4) A society registered under the Industrial and Provident Societies Act, 1852, and not registered under the Industrial and Provident Societies Acts, 1862, 1867, or 1876, may obtain from the registrar an acknowledgment of registry under this Act;

(5) The word "limited" shall be the last word in the name of every society registered under this Act;

(6) A society carrying or intending to carry on business in more than one part of the United Kingdom shall be registered in the part in which its registered office, as herein mentioned, is situate; but copies of the rules of the society and of all amendments of the same shall, when registered, be sent to the registrar of each of the other parts to be recorded by him, and until such rules are so recorded the society shall not be entitled to any of the privileges of this Act in the part in which such rules have not been recorded, and until such amendments are so recorded the same shall not take effect in such part.

6. The registrar, on being satisfied that a society has complied with the provisions as to registry in force under this Act, shall issue to such society an acknowledgment of registry.

7. (1) If the registrar refuses to register the society or any rules or amendments of rules, the society may appeal from such refusal as follows:—

(*a*) In England or Ireland to the High Court;

(*b*) In Scotland to either division of the Inner House of the Court of Session.

(2) If the refusal of registry is overruled on appeal, an acknowledgment of registry shall thereupon be given to the society by the registrar.

8. The acknowledgment of registry shall be conclusive evidence that the society therein mentioned is duly registered, unless it is proved that the registry of the society has been suspended or cancelled.

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* This Act replaces that of 1876, and is that under which English co-operative societies, other than friendly and building societies, are registered. *See* Vol. I, pp. 187–89.

Cancelling and Suspension of Registry.

9. (1) The registrar may cancel the registry of a society by writing under his hand or seal:

(*a*) If at any time it is proved to his satisfaction that the number of the members of the society has been reduced to less than seven, or that an acknowledgment of registry has been obtained by fraud or mistake, or that the society has ceased to exist;

(*b*) If he thinks fit, at the request of a society, to be evidenced in such manner as he shall from time to time direct;

(*c*) With the approval of the Treasury, on proof to his satisfaction that the society exists for an illegal purpose, or has wilfully and after notice from a registrar violated any of the provisions of this Act.

(2) The registrar, in any case in which he might, with the approval of the Treasury, cancel the registry of a society, may suspend the same, by writing under his hand or seal, for any term not exceeding three months, and may, with the approval of the Treasury, renew such suspension from time to time for the like period.

(3) Not less than two months' previous notice in writing, specifying briefly the ground of any proposed cancelling or suspension of registry, shall be given by the registrar to a society before the registry of the same can be cancelled (except at its request) or suspended; and notice of every cancelling or suspension shall be published in the Gazette, and in some local newspaper circulating in or about the locality in which the registered office of the society is situated, as soon as practicable after the same takes place.

(4) A society may appeal from the cancelling of its registry, or from any suspension of the same which is renewed after three months, in manner herein provided for appeals from the registrar's refusal to register.

(5) A society whose registry has been suspended or cancelled shall, from the date of publication in the Gazette of notice of such suspension or cancelling (but, if suspended, only whilst such suspension lasts, and subject also to the right of appeal hereby given), absolutely cease to enjoy as such the privileges of a registered society, but without prejudice to any liability actually incurred by such society, which may be enforced against the same as if such suspension or cancelling had not taken place.

Rules.

10. (1) The rules of a society registered under this Act shall contain provisions in respect of the several matters mentioned in the Second Schedule to this Act.

(2) An amendment of a rule of a society registered under this Act shall not be valid until the same has been registered under this Act, for which purpose two copies of the same, signed by three members and the secretary, shall be sent to the registrar.

(3) The registrar shall, on being satisfied that any amendment of a rule is not contrary to the provisions of this Act, issue to the society an acknowledgment of registry of the same, which shall be conclusive evidence that the same is duly registered.

(4) A copy of the rules of a registered society shall be delivered by the society to every person on demand, on payment of a sum not exceeding one shilling.

(5) The rules of a registered society, or any schedule thereto, may set forth the form of any instrument necessary for carrying the purposes of the society into effect.

(6) The rules of every society registered under this Act shall provide for the profits being appropriated to any purposes stated therein or determined in such manner as the rules direct.

Duties of Registered Societies.

11. Every registered society shall have a registered office to which all communications and notices shall be addressed, and shall send to the registrar notice of the situation of such office, and of every change therein.

12. Every registered society shall paint or affix, and keep painted or affixed, its registered name on the outside of every office or place in which the business of the society is carried on, in a conspicuous position, in letters easily legible, and have its registered name engraven in legible characters on its seal, and have its registered name mentioned in legible characters in all notices, advertisements, and other official publications of the society, and in all bills of exchange, promissory notes, endorsements, cheques, and orders for money or goods, purporting to be signed by or on behalf of such society, and in all bills of parcels, invoices, receipts, and letters of credit of the society.

13. (1) Every registered society shall once at least in every year submit its accounts for audit either to one of the public auditors appointed as in this Act mentioned, or to two or more persons appointed as the rules of the society provide.

(2) The auditors shall have access to all the books, deeds, documents, and accounts of the society, and shall examine the balance sheets showing the receipts and expenditure, funds and effects of the society, and verify the same with the books, deeds, documents, accounts and vouchers relating thereto, and shall either sign the same as found by them to be correct, duly vouched, and in accordance with law, or specially report to the society in what respects they find them incorrect, unvouched, or not in accordance with law.

14. (1) Every registered society shall once in every year, not later than the thirty-first day of March, send to the registrar an annual return of the receipts and expenditure, funds and effects, of the society as audited.

(2) The annual return—

(*a*) shall be signed by the auditor or auditors; and

(*b*) shall show separately the expenditure in respect of the several objects of the society; and

(*c*) shall be made out from the date of its registration or last annual return to that of its last published balance sheet, provided that the last-named date is not more than one month

before or after the 31st of December then last, or otherwise to the said day of December inclusive; and

(*d*) shall state whether the audit has been conducted by a public auditor appointed as by this Act is provided, and by whom, and, if by any persons other than a public auditor, shall state the name, address, and calling or profession of every such person, and the manner in which, and the authority under which, he is appointed.

The society shall, together with the annual return, send a copy of the report of the auditors, or, if more than one such report has been made during the period included in the return, a copy of each of such reports.

15. Every registered society shall supply gratuitously to every member or person interested in the funds of the society, on his application, a copy of the last annual return of the society for the time being.

16. Every registered society shall keep a copy of the last balance sheet for the time being, together with the report of the auditors, always hung up in a conspicuous place at the registered office of the society.

Inspection of Books.

17. (1) Save as provided by this Act, no member or person shall have any right to inspect the books of a registered society, notwithstanding anything in the existing rules relating to such inspection.

(2) Any member or person having an interest in the funds of a registered society shall be allowed to inspect his own account and the books containing the names of the members at all reasonable hours at the registered office of the society, or at any place where the same are kept, subject to such regulations as to the time and manner of such inspection as may be made from time to time by the general meetings of the society.

(3) A registered society may, by any rules registered after this Act is passed, authorise the inspection of any of its books therein mentioned, in addition to the said books containing the names of members, under such conditions as are thereby imposed, so that no person, unless he be an officer of the society, or be specially authorised by a resolution thereof, shall have the right to inspect the loan or deposit account of any other member without his written consent.

18. (1) The registrar may, if he thinks fit, on the application of ten members of a registered society, each of whom has been a member of the society for not less than twelve months immediately preceding the date of the application, appoint an accountant or actuary to inspect the books of the society, and to report thereon.

(2) Provided, as follows,—

(*a*) the applicants shall deposit with the registrar such sum as a security for the costs of the proposed inspection as the registrar may require; and

(*b*) all expenses of and incidental to any such inspection shall be defrayed by the applicants, or out of the funds of the society, or by the members or officers, or former members or officers, of the society in such proportions as the registrar may direct.

(3) A person appointed under this section shall have power to make copies of any books of the society, and to take extracts therefrom, at all reasonable hours, at the registered office of the society or at any place where the books are kept.

(4) The registrar shall communicate the results of any such inspection to the applicants and to the society.

Banking by Societies.

19. (1) No registered society which has any withdrawable share capital shall carry on the business of banking.*

(2) Every registered society which carries on the business of banking shall on the first Mondays in February and August in each year make out and keep conspicuously hung up in its registered office, and every other office or place of business belonging to it where the business of banking is carried on, a statement in the form in the Third Schedule, or as near thereto as the circumstances admit.

(3) The taking deposits of not more than ten shillings in any one payment, nor more than twenty pounds for any one depositor, payable on not less than two clear days' notice, shall not be included in the business of banking within the meaning of this Act; but no society which takes such deposits shall make any payment of withdrawable capital while any claim due on account of any such deposit is unsatisfied.

Returns and Documents.

20. Every return and other document required for the purposes of this Act shall be made in such form and shall contain such particulars as the chief registrar prescribes, and shall be deposited and registered or recorded, with or without observations thereon, in such manner as the chief registrar directs.

Privileges of Societies.

21. The registration of a society shall render it a body corporate by the name described in the acknowledgment of registry, by which it may sue and be sued, with perpetual succession and a common seal, and with limited liability; and shall vest in the society all property for the time being vested in any person in trust for the society; and all legal proceedings pending by or against the trustees of any such society may be prosecuted by or against the society in its registered name without abatement.

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* This provision seems unnecessarily stringent in the light of continental European experience, where the co-operative credit societies do so immense on account of banking, although they are all societies "à capital variable," since members to any number may withdraw at will, taking their capital with them. (*See* Vol. I *passim*, but especially the chapter on 'Popular banks,' pages 133–198.) It has, in fact, been ascertained that the four or five village banks recently (1895–96) started in England under the stimulus and information supplied by the 'Agricultural Banks Association,' have been registered under the Friendly Societies Act instead of under this Act.

22. The rules of a registered society shall bind the society and all members thereof and all persons claiming through them respectively to the same extent as if each member had subscribed his name and affixed his seal thereto, and there were contained in such rules a covenant on the part of such member, his heirs, executors, administrators, and assigns, to conform thereto, subject to the provisions of this Act: Provided that a society registered at the time when this Act comes into operation, or the members thereof, may respectively exercise any power given by this Act, and not made to depend on the provisions of its rules, notwithstanding any provision contained in any rule thereof registered before this Act was passed.

23. (1) All moneys payable by a member to a registered society shall be a debt due from such member to the society, and shall be recoverable as such either in the county court of the district in which the registered office of the society is situate, or in that of the district in which such member resides, at the option of the society.

(2) A registered society shall have a lien on the shares of any member for any debt due to it by him, and may set off any sum credited to the member thereon in or towards the payment of such debt.

24. A registered society shall not be chargeable under Schedules C. and D. of the Income Tax Acts unless it sells to persons not members thereof, and the number of shares of the society is limited either by its rules or its practice. But no member of or person employed by the society shall be exempt from any assessment to the said duties to which he would be otherwise liable.

25. (1) A member of a registered society, not being under the age of sixteen years, may, by a writing under his hand, delivered at or sent to the registered office of the society during the lifetime of such member, or made in any book kept thereat, nominate any person or persons other than an officer or servant of the society (unless such officer or servant is the husband, wife, father, mother, child, brother, sister, nephew, or niece of the nominator) to or among whom his property in the society, whether in shares, loans, or deposits, or so much thereof as is specified in such nomination, if the nomination does not comprise the whole, shall be transferred at his decease, provided the amount credited to him in the books of the society does not then exceed one hundred pounds sterling.

(2) A nomination so made may be revoked or varied by any similar document under the hand of the nominator, delivered, sent, or made as aforesaid, but shall not be revocable or variable by the will of the nominator or any codicil thereto.

(3) The society shall keep a book wherein the names of all persons so nominated and of all revocations or variations, if any, of such nominations shall be regularly entered. And the property comprised in any such nomination shall be payable or transferable to the nominees, although the rules of the society declare the shares to be generally not transferable.

26. (1) On receiving satisfactory proof of the death of a nominator, the committee of the society shall either transfer the property comprised in the nomination in manner directed by it, or pay to every person entitled thereunder the full value of the property given to him, unless the shares comprised therein, if transferred as directed by the nominator, would raise the share capital of any nominee to a sum exceeding two hundred pounds, in which case they shall pay him the value of such shares.

(2) If the total property of the nominator in the society at his death exceeds eighty pounds, the committee shall, before making any payment, require production of a duly stamped receipt for the succession or legacy duty payable thereon, or a letter or certificate stating that no such duty is payable from the Commissioners of Inland Revenue, who shall give such receipt, letter, or certificate, on payment of the duty, or satisfactory proof of no duty being payable, as the case may be.

27. (1) If any member of a registered society entitled to property therein in respect of shares, loans, or deposits, not exceeding in the whole, at his death, one hundred pounds, dies intestate, without having made any nomination thereof then subsisting, the committee may, without letters of administration, distribute the same among such persons as appear to them, on such evidence as they deem satisfactory, to be entitled by law to receive the same, subject, if such property exceeds eighty pounds, to the obtaining from the Commissioners of Inland Revenue a receipt for the succession or legacy duty payable thereon, or a letter or certificate stating that no such duty is payable.

(2) If any such member is illegitimate and leaves no widow, widower, or issue, the committee shall deal with his property in the society as the Treasury shall direct.

28. If elsewhere than in Scotland the whole personal estate, or in Scotland the whole movable estate, of any person entitled to make a nomination under this Act exceeds one hundred pounds sterling, any sum paid under this Act without probate or letters of administration shall, notwithstanding such nomination or payment, be liable to probate duty as part of the amount on which such duty is charged, and the committee, before making any such payment, may require a statutory declaration by the claimant or one of the claimants that the total personal or movable estate of the deceased, including the sum in question, does not, after deductions of debts and funeral expenses, exceed the value of one hundred pounds.

29. Where a member or person claiming through a member of a society is insane, and no committee of his estate or trustee of his property has been duly appointed, the society may, when it is proved to the satisfaction of the committee that it is just and expedient so to do, pay the amount of the shares, loans, and deposits not exceeding one hundred pounds belonging to such member or person, to any person whom they shall judge proper to receive the same on his behalf, whose receipt shall be a good discharge to the society for any sum so paid.

30. All payments or transfers made by the committee of a registered society, under the provisions of this Act with respect to payments or transfers to or on behalf of deceased or insane members, to any person who at the time appears to the committee to be entitled thereunder, shall be valid and effectual against any demand made upon the committee or society by any other person.

31. (1) When any person in whose name any stock belonging to a registered society transferable at the Bank of England or Bank of Ireland is standing, either jointly with another or others or solely, as a trustee therefor, is absent from Great Britain or Ireland respectively, or becomes bankrupt, or

files any petition or executes any deed for liquidation of his affairs by assignment or arrangement, or for composition with his creditors, or becomes a lunatic, or is dead, or has been removed from his office of trustee, or if it be unknown whether such person is living or dead, the chief registrar, on application in writing from the secretary and three members of the society, and on proof satisfactory to him, may direct the transfer of the stock into the names of any other persons as trustees for the society.

(2) The transfer shall be made by the surviving or continuing trustees, and if there be no such trustee, or if such trustees refuse or be unable to make such transfer, and the chief registrar so directs, then by the Accountant-General or Deputy or Assistant Accountant-General of the Bank of England or Bank of Ireland, as the case may be.

(3) The Banks of England and Ireland are hereby indemnified for anything done by them or any of their officers in pursuance of this provision against any claim or demand of any person injuriously affected thereby.

32. A person under the age of twenty-one but above the age of sixteen may be a member of a registered society, unless provision be made in the rules thereof to the contrary, and may, subject to the rules of the society, enjoy all the rights of a member (except as by this Act provided), and execute all instruments and give all acquittances necessary to be executed or given under the rules, but shall not be a member of the committee, trustee, manager or treasurer of the society.

33. A promissory note or bill of exchange shall be deemed to have been made, accepted, or endorsed on behalf of any society if made, accepted, or endorsed in the name of the society, or by or on behalf or on account of the society, by any person acting under the authority of the society.

34. Any register or list of members or shares kept by any society shall be *primâ facie* evidence of any of the following particulars entered therein :—

(*a*) The names, addresses, and occupations of the members, the number of shares held by them respectively, the numbers of such shares, if they are distinguished by numbers, and the amount paid or agreed to be considered as paid on any such shares;

(*b*) The date at which the name of any person, company, or society was entered in such register or list as a member;

(*c*) The date at which any such person, company, or society ceased to be a member.

* * * * *

Property and Funds of Registered Society.

36. A registered society may (if its rules do not direct otherwise) hold, purchase, or take on lease in its own name any land, and may sell, exchange, mortgage, lease, or build upon the same, or grant bonds and dispositions on security or other heritable securities over the same.

* * * * *

38. (1) A registered society may invest any part of its capital in or upon any security authorised by its rules, and also, if the rules do not direct otherwise—

(*a*) in or upon any security in which trustees are, for the time being, authorised by law to invest; and

(*b*) in or upon any mortgage, bond, debenture, debenture stock, corporation stock, annuity, rent charge, rent, or other security (not being securities payable to bearer) authorised by or under any Act of Parliament passed or to be passed of any local authority as defined by section thirty-four of the Local Loans Act, 1875; and

(*c*) in the shares or on the security of any other society registered or deemed to be registered under this Act, or under the Building Societies Acts, or of any company registered under the Companies Acts or incorporated by Act of Parliament or by charter, provided that no such investment be made in the shares of any society or company other than one with limited liability.

(2) A society so investing shall be deemed to be a person within the meaning of the Companies Acts, and of the Building Societies Acts.

(3) Any investments made before the passing of this Act, which would have been valid if this Act had then been in force, are hereby ratified and confirmed.

39. A society (not being one chargeable with income tax in pursuance of this Act) may invest its capital and funds, or any part thereof to any amount, in any savings bank certified under the Trustee Savings Banks Act, 1863, or in a post office savings bank.

40. The rules of a registered society may provide for advances of money to members on the security of real or personal property, or in the case of a society registered to carry on banking business in any manner customary in the conduct of such business.

41. A registered society which has invested any part of its capital in the shares or on the security of any other body corporate may appoint as proxy any one of its members although such member is not personally a shareholder of such other body corporate. The proxy shall, during the continuance of his appointment, be taken in virtue thereof as holding the number of shares held by the society by whom he is appointed for all purposes except the transfer of any such shares, or the giving receipts for any dividends thereon.

42. Any other body corporate may, if its regulations permit, hold shares by its corporate name in a registered society.

Discharge of Mortgages by Receipt endorsed.

43. In England and Ireland—

(1) A receipt in full, signed by two members of the committee, and countersigned by the secretary, of a registered society, for all moneys secured to the society on the security of any property to which such receipt relates, and being in the Form A. in the Third Schedule to this Act, or in any other form specified in the rules of the society or any schedule thereto, if endorsed on or annexed to any mortgage or assurance, shall vacate the same and vest the property therein comprised in the person entitled to the equity of redemption thereof without any formal re-conveyance or surrender.

(2) If such mortgage or other assurance has been registered under any Act for the registration or record of deeds or titles, or is of copyholds or lands of customary tenure, and is entered on any court rolls, the registrar under such Act, or recording officer, or steward of the manor, or keeper of the register, shall, on production of such receipt verified by oath or statutory declaration of any person, enter satisfaction on the register or on the court rolls respectively of such mortgage or of the charge made by such assurance, and shall grant a certificate, either upon such mortgage or assurance, or separately to the like effect, which certificate shall be received in evidence in all courts and proceedings without further proof; and such registrar, recording officer, steward, or keeper of the register shall be entitled, for making the said entry and granting the said certificate, to a fee of two shillings and six pence, which in Ireland shall be paid by stamps and applied in accordance with the Public Offices Fees Act, 1879.

45. Where a registered society is in liquidation, the signature to such a receipt as aforesaid of the liquidator or liquidators for the time being, described as such, shall have the same effect, and shall be entitled to the same exemption from stamp duty, as would under this Act attach to a similar receipt signed as aforesaid if the society were not in liquidation.

46. (1) Any deed or writ to which any registered society is a party shall be held to be duly executed on behalf of such society in Scotland if it is either executed in conformity with the present law thereof or is sealed with the common seal of the society, subscribed on its behalf by two members of the committee and the secretary of the society, whether such subscription is attested by witnesses or not.

(2) On payment of all moneys intended to be secured to a society by any of the aforesaid securities, the debtor or his successor or representatives shall be entitled to a receipt in the appropriate form provided by this Act.

Officers in receipt or charge of Money.

47. Every officer of a registered society having receipt or charge of money, if the rules of the society require, shall, before taking upon himself the execution of his office, become bound, either with or without a surety as the committee may require, in a bond according to one of the forms set forth in the Third Schedule to this Act, or such other form as the committee of the society approve, or give the security of a guarantee society, in such sum as the committee directs, conditioned for his rendering a just and true account of all moneys received and paid by him on account of the society at such times as its rules appoint, or as the society or the committee thereof require him to do, and for the payment by him of all sums due from him to the society.

48. (1) Every officer of a registered society having receipt or charge of money, or his executors or administrators, shall, at such times as by the rules of the society he should render account, or upon demand made, or notice in writing given or left at his last or usual place of residence, give in his account as may be required by the society, or by the committee thereof, to be examined and allowed or disallowed by them, and shall, on the like demand or notice, pay over all moneys and deliver all property for the time being in his hands or custody to such person as the society or the committee appoint; and in case of any neglect or refusal to deliver such account, or to pay over such moneys or to deliver such property in manner aforesaid, the society may sue upon the bond or security before mentioned, or may apply to the county court (which may proceed in a summary way), or to a court of summary jurisdiction, and the order of either such court shall be final and conclusive.

(2) This section shall apply to every servant of a registered society in receipt or charge of money in every case where he is not engaged under a special agreement to account.

Disputes.

49. (1) Every dispute between a member of a registered society, or any person aggrieved who has for not more than six months ceased to be a member of a registered society, or any person claiming through such member or person aggrieved, or claiming under the rules of a registered society, and the society or an officer thereof, shall be decided in manner directed by the rules of the society, if they contain any such direction, and the decision so made shall be binding and conclusive on all parties without appeal, and shall not be removable into any court of law or restrainable by injunction; and application for the enforcement thereof may be made to the county court.

(2) The parties to a dispute in a society may, by consent (unless the rules of such society expressly forbid it), refer such dispute to the chief registrar, or to the assistant registrar in Scotland or Ireland, who shall, with the consent of the Treasury, either by himself or by any other registrar, hear and determine such dispute, and shall have power to order the expenses of determining the same to be paid either out of the funds of the society or by such parties to the dispute as he shall think fit, and such determination and order shall have the same effect and be enforceable in like manner as a decision made in the manner directed by the rules of the society.

(3) The chief or other registrar to whom any dispute is referred may administer oaths, and may require the attendance of all parties concerned and of witnesses, and the production of all books and documents relating to the matter in question; and any person refusing to attend, or to produce any documents, or to give evidence before such chief or other registrar, shall be guilty of an offence under this Act.

(4) Where the rules of a society direct that disputes shall be referred to justices, the dispute shall be determined by a court of summary jurisdiction:

Provided that in every case of dispute cognisable under the rules of a society by a court of summary jurisdiction, it shall be lawful for the parties thereto to enter into a consent referring such dispute to the county court, which may hear and determine the matter in dispute.

(5) Where the rules contain no direction as to disputes, or where no decision is made on a dispute within forty days after application to the society for a reference under its rules, the member or person aggrieved may apply either to the county court, or to a court of summary jurisdiction, which may hear and determine the matter in dispute.

(6) Notwithstanding anything contained in the Arbitration Act, 1889, or in any other Act, the court and the chief or other registrar shall not be compelled to state a special case on any question of law arising in the case, but the court or chief or other registrar, may, at the request of either party, state a case for the opinion in England or Ireland of the Supreme Court of Judicature, and in Scotland of either division of the Inner House of the Court of Session, on any question of law, and may also grant to either party such discovery as to documents and otherwise, or such inspection of documents, and in Scotland may grant such warrant for the recovery of documents and examination of havers, as might be granted by any court of law or equity; such discovery to be made on behalf of the society by such officer of the same as such court or registrar may determine.

Inspection of Affairs.

50. (1) Upon the application of one-tenth of the whole number of members of a registered society, or of one hundred members in the case of a society exceeding one thousand members, the chief registrar, or, in the case of societies registered and doing business exclusively in Scotland or Ireland, the assistant registrar for Scotland or Ireland respectively, but with the consent of the Treasury in every case, may—

(*a*) appoint an inspector or inspectors to examine into and report on the affairs of such society; or

(*b*) call a special meeting of the society.

(2) The application under this section shall be supported by such evidence, for the purpose of showing that the applicants have good reason for requiring such inspection to be made or meeting to be called, and that they are not actuated by malicious motives in their application, and such notice thereof shall be given to the society, as the chief registrar shall direct.

(3) The chief registrar or such assistant registrar may, if he think fit, require the applicants to give security for the costs of the proposed inspection or meeting before appointing any inspector or calling such meeting.

(4) All expenses of and incidental to any such inspection or meeting shall be defrayed by the members applying for the same, or out of the funds of the society, or by the members or officers, or former members or officers, of the society in such proportions as the chief registrar or such assistant registrar shall direct.

(5) An inspector appointed under this section may require the production of all or any of the books, accounts, securities, and documents of the society, and may examine on oath its officers, members, agents, and servants in relation to its business, and may administer an oath accordingly.

(6) The chief registrar or such assistant registrar may direct at what time and place a special meeting under this section is to be held, and what matters are to be discussed and determined at the meeting, and the meeting shall have all the powers of a meeting called according to the rules of the society, and shall in all cases have power to appoint its own chairman, any rule of the society to the contrary notwithstanding.

Change of Name: Amalgamation: Conversion.

51. For the purposes of this Act a special resolution shall mean a resolution which is—

(*a*) passed by a majority of not less than three-fourths of such members of a registered society for the time being entitled under the rules to vote as may have voted in person, or by proxy where the rules allow proxies, at any general meeting of which notice, specifying the intention to propose the resolutions, has been duly given according to the rules; and

(*b*) confirmed by a majority of such members for the time being entitled under the rules to vote as may have voted in person, or by proxy where the rules allow proxies, at a subsequent general meeting of which notice has been duly given, held not less than fourteen days nor more than one month from the day of the meeting at which such resolution was first passed.

At any meeting mentioned in this section a declaration by the chairman that the resolution has been carried shall be deemed conclusive evidence of the fact.

52. A registered society may, by special resolution, with the approval in writing of the chief registrar, or, in the case of societies registered and doing business exclusively in Scotland or Ireland, the assistant registrar for Scotland or Ireland respectively, change its name; but no such change shall affect any right or obligation of the society, or of any member thereof, and any pending legal proceedings may be continued by or against the society notwithstanding its new name.

53. (1) Any two or more registered societies may, by special resolution of both or all such societies, become amalgamated together as one society, with or without any dissolution or division of the funds of such societies or either of them, and the property of such societies shall become vested in the amalgamated society without the necessity of any form of conveyance other than that contained in the special resolution amalgamating the societies.

(2) Any registered society may by special resolution transfer its engagements to any other registered society which may undertake to fulfil the engagements of such society.

54. (1) A registered society may by special resolution determine to convert itself into a company under the Companies Acts, or to amalgamate with or transfer its engagements to any such company.

(2) If a special resolution for converting a registered society into a company contains the particulars by the Companies Acts required to be contained in the memorandum of association of a company, and a copy thereof has been registered at the central office, a copy of such resolution under the seal or stamp of the central office shall have the same effect as a memorandum of association duly signed and attested under the said Act.

(3) If a registered society is registered as, or amalgamates with, or transfers all its engagements to, a company, the registry of such society under this Act shall thereupon become void, and the same shall be cancelled by the chief registrar or by the assistant registrar for Scotland or Ireland

under his direction; but the registration of a society as a company shall not affect any right or claim for the time being subsisting against such society, or any penalty for the time being incurred by such society; and, for the purpose of enforcing any such right, claim, or penalty, the society may be sued and proceeded against in the same manner as if it had not become registered as a company; and every such right or claim, or the liability to such penalty, shall have priority, as against the property of such company, over all other rights or claims against or liabilities of such company.

55. (1) A company registered under the Companies Acts may, by a special resolution, determine to convert itself into a registered society, and, for this purpose, in any case where the nominal value of its shares held by any member other than a registered society exceeds two hundred pounds, may, by such resolution, provide for the conversion of the excess of such share capital over two hundred pounds into a transferable loan stock bearing such rate of interest as may thereby be fixed, and repayable on such conditions only as are in such resolution determined.

(2) A resolution for the conversion of a company into a registered society shall be accompanied by a copy of the rules of the society therein referred to, and shall appoint seven persons, members of the company, who, together with the secretary, shall sign the rules, and who may either be authorised to accept any alterations made by the registrar therein, without further consulting the company, or may be required to lay all such alterations before the company in general meeting for acceptance as the resolution may direct.

(3) With the rules a copy of the special resolution for conversion of the company into a registered society shall be sent to the registrar, who, upon the registration of the society, shall give to it, in addition to the acknowledgment of registry, a certificate similarly sealed or signed that the rules of the society referred to in the resolution have been registered, but in the registered name of the company as a society the word 'company' shall not be used.

(4) A copy of the resolution for the conversion of the company into a registered society under the seal of the company, together with the certificate so issued by the registrar, shall be sent for registration to the office of the Registrar of Joint Stock Companies, and, upon the registration of such resolution and certificate, the conversion shall take effect.

(5) Upon the conversion of a company into a registered society the registry of the company under the Companies Acts shall become void, and shall be cancelled by the Registrar of Joint Stock Companies; but the registration of a company as a registered society shall not affect any right or claim for the time being subsisting against the company, or any penalty for the time being incurred by such company, and, for the purpose of enforcing any such right, claim, or penalty, the company may be sued and proceeded against in the same manner as if it had not become registered as a society. And every such right or claim, and the liability to such penalty, shall have priority as against the property of such society over all other rights or claims against or liabilities of the society.

56. A copy of every special resolution for any of the purposes mentioned in this Act, signed by the chairman of the meeting at which the resolution was confirmed, and countersigned by the secretary of the society, shall be sent to the central office and registered there, and until that copy is so registered the special resolution shall not take effect.

57. An amalgamation or transfer of engagements in pursuance of this Act shall not prejudice any right of a creditor of any registered society party thereto.

Dissolution of Societies.

58. A registered society may be dissolved—

(*a*) by an order to wind up the society, or a resolution for the winding up thereof, made as is directed in regard to companies by the Companies Acts, 1862 to 1890, the provisions whereof shall apply to any such order or resolution, except that the term 'registrar' shall for the purpose of such winding up have the meaning given to it by this Act; or

(*b*) by the consent of three-fourths of the members, testified by their signatures to an instrument of dissolution.

59. Any proceedings in the winding up of a registered society which at the passing of this Act are pending in any county court may, on application made by or on behalf of the registrar, with the consent of the Treasury, be transferred to the High Court, and thereupon the Companies (Winding-up) Act, 1890, shall, so far as applicable, apply thereto accordingly.

60. Where a registered society is wound up in pursuance of an order or resolution the liability of a present or past member of the society to contribute for payment of the debts and liabilities of the society, the expenses of winding up, and the adjustment of the rights of contributories amongst themselves, shall be qualified as follows:—

(*a*) No individual, society, or company, who or which has ceased to be a member for one year or upwards prior to the commencement of the winding up, shall be liable to contribute;

(*b*) No individual, society, or company shall be liable to contribute in respect of any debt or liability contracted after he or it ceased to be a member;

(*c*) No individual, society, or company, not a member, shall be liable to contribute, unless it appears to the court that the contributions of the existing members are insufficient to satisfy the just demands on the society;

(*d*) No contribution shall be required from any individual, society, or company exceeding the amount, if any, unpaid on the shares in respect of which he or it is liable as a past or present member;

(*e*) An individual, society, or company shall be taken to have ceased to be a member, in respect of any withdrawable share withdrawn, from the date of the notice or application for withdrawal.

61. Where a society is terminated by an instrument of dissolution:—

(*a*) The instrument of dissolution shall set forth the liabilities and assets of the society in detail, the number of members and the nature of their interests in the society respectively, the claims of creditors (if any) and the provisions to be made for their payment, and

the intended appropriation or division of the funds and property of the society, unless the same be stated in the instrument of dissolution to be left to the award of the chief registrar;

(*b*) Alterations in the instrument of dissolution may be made with the like consents as hereinbefore provided, and testified in the same manner;

(*c*) A statutory declaration shall be made by three members and the secretary of the society that the provisions of this Act have been complied with, and shall be sent to the registrar with the instrument of dissolution; and any person knowingly making a false or fraudulent declaration in the matter shall be guilty of a misdemeanor;

(*d*) The instrument of dissolution and all alterations therein shall be registered in the manner herein provided for the registry of rules, and shall be binding upon all the members of the society;

(*e*) The registrar shall cause a notice of the dissolution to be advertised at the expense of the society in the Gazette and in some newspaper circulating in or about the locality in which the registered office of the society is situated; and unless, within three months from the date of the Gazette in which such advertisement appears, a member or other person interested in or having any claim on the funds of the society commences proceedings to set aside the dissolution of the society in the county court of the district where the registered office of the society is situate, and such dissolution is set aside accordingly, the society shall be legally dissolved from the date of such advertisement, and the requisite consents to the instrument of dissolution shall be considered to have been duly obtained without proof of the signatures thereto.

(*f*) Notice shall be sent to the central office of any proceeding to set aside the dissolution of a society, not less than seven days before it is commenced, by the person by whom it is taken, or of any order setting it aside, within seven days after it is made by the society.

Offences, Penalties, and Legal Proceedings.

62. It shall be an offence under this Act if any registered society—

(1) fails to give any notice, send any return or document, or do or allow to be done any act or thing which the society is by this Act required to give, send, do, or allow to be done; or

(2) wilfully neglects or refuses to do any act or to furnish any information required for the purposes of this Act by the chief or any other registrar or other person authorised under this Act, or does any act or thing forbidden by this Act; or

(3) makes a return or wilfully furnishes information in any respect false or insufficient; or

(4) carries on the business of banking when it has any withdrawable share capital, or in carrying on such business does not make out and keep conspicuously hung up such statement as is hereinbefore required, or makes any payment of withdrawable capital contrary to the provisions of this Act.

63. Every offence by a society under this Act shall be deemed to have been also committed by every officer of the same bound by the rules thereof to fulfil the duty whereof such offence is a breach, or, if there be no such officer, then by every member of the committee of the same, unless such member be proved to have been ignorant of or to have attempted to prevent the commission of such offence; and every act or default under this Act constituting an offence, if continued, shall constitute a new offence in every week during which the same continues.

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65. If any person wilfully makes, orders, or allows to be made any entry or erasure in, or omission from, any balance sheet of a registered society, or any contribution or collecting book, or any return or document required to be sent, produced, or delivered for the purposes of this Act, with intent to falsify the same, or to evade any of the provisions of this Act, he shall be liable to a fine not exceeding fifty pounds.

66. If any officer of a registered society, or any person on its behalf, uses any seal purporting to be a seal of the society, whereon its name is not so engraved as aforesaid, or issues or authorises the issue of any notice, advertisement, or other official publication of the society, or signs or authorises to be signed on behalf of the society any bill of exchange, promissory note, endorsement, cheque, order for money or goods, or issues or authorises to be issued any bills of parcels, invoice, receipt, or letters of credit of the society, wherein its name is not mentioned in manner aforesaid, he shall be liable to a fine not exceeding fifty pounds, and shall further be personally liable to the holder of any such bill of exchange, promissory note, cheque, or order for money or goods for the amount thereof unless the same is duly paid by the society.

67. It shall be an offence under this Act if any person, with intent to mislead or defraud, gives to any other person a copy of any rules, other than the rules for the time being registered under this Act, on the pretence that the same are existing rules of a registered society, or that there are no other rules of such society, or gives to any person a copy of any rules on the pretence that such rules are the rules of a registered society when the society is not registered.

68. Every society, officer or member of a society, or other person, guilty of an offence under this Act, for which no penalty is expressly provided herein, shall be liable to a fine not exceeding five pounds.

69. (1) Every fine imposed or to be imposed by this Act, or by any regulations under this Act, or by the rules of a registered society, shall be recoverable summarily.

(2) Any such fine, if imposed by this Act or by any regulations thereunder, shall be recoverable at the suit of the chief registrar, or of any assistant registrar, or of any person aggrieved, and, if imposed by the rules of a registered society, shall be recoverable at the suit of the society.

70. (1) In England or Ireland any party may appeal to quarter sessions from any order or conviction made by a court of summary jurisdiction under this Act.

(2) In Scotland any person may appeal from any order or conviction under this Act in accordance with the provisions of the Summary Jurisdiction (Scotland) Acts.

Supplemental.

71. The registrar and high bailiffs of the county courts shall be remunerated for the duties to be performed by them under this Act in such manner as the Treasury, with the consent of the Lord Chancellor, from time to time order and direct.

72. The Treasury may appoint public auditors for the purposes of this Act, and may determine the rates of remuneration to be paid by registered societies for the services of such auditors, but the employment of such auditors shall not be compulsory.

73. (1) The Treasury may determine a scale of fees to be paid for matters to be transacted or for the inspection of documents under this Act.

(2) All fees received by any registrar under or by virtue of this Act shall be paid into the Exchequer.

74. (1) The Treasury may make regulations respecting registry and procedure under this Act, and the forms to be used for such registry, and the duties and functions of the registrar, and the inspection of documents kept by the registrar under this Act, and generally for carrying this Act into effect.

(2) All such regulations shall be laid before both Houses of Parliament within ten days after the making thereof if Parliament is then sitting, or, if not then sitting, then within ten days from the then next assembling of Parliament.

(3) Until otherwise provided by such regulations, the forms contained in the Fourth Schedule to this Act shall be used.

75. Every copy of rules or other instrument or document, copy or extract of an instrument or document, bearing the seal or stamp of the central office, shall be received in evidence without further proof; and every document purporting to be signed by the chief or any assistant registrar, or any inspector or public auditor under this Act, shall, in the absence of any evidence to the contrary, be received in evidence without proof of the signature.

76. Sub-sections six, seven, eight, and nine of section ten of the Friendly Societies Act, 1875, relating to the duties of the chief registrar and assistant registrars, shall, so far as the same are applicable to industrial and provident societies, be incorporated with this Act.

* * * * *

79. In this Act, if not inconsistent with the context, the following terms shall have the meanings hereinafter respectively assigned to them:—

"The registrar" shall mean, for England, the central office established by the Friendly Societies Act, 1875, and, for Scotland or Ireland, the assistant registrar of friendly societies for either country respectively; "the central office" shall mean the central office so established; and "chief registrar" and "assistant registrar" shall mean chief registrar and assistant registrar of friendly societies respectively;

"Land" shall include hereditaments and chattels real, and in Scotland heritable subjects, of whatever description;

"Property" shall include all real and personal estate (including books and papers);

"Registered society" shall mean a society registered or deemed to be registered under this Act;

"Amendment of rule" shall include a new rule, and a resolution rescinding a rule;

"Rules" shall mean the registered rules for the time being, and shall include any registered amendment of rules;

"The committee" shall mean the committee of management or other directing body of a society;

"Persons claiming through a member" shall include the heirs, executors, or administrators, and assigns of a member, and also his nominees where nomination is allowed;

"Officer" shall extend to any treasurer, secretary, member of the committee, manager, or servant, other than a servant appointed by the committee, of a society;

"Meeting" shall include (where the rules of a society so allow) a meeting of delegates appointed by members;

"Office" shall mean the registered office for the time being of a society;

"County court" shall mean, for Scotland, the sheriff court of the county, and, for Scotland, "probate or letters of administration" shall mean confirmation in cases of testate succession, and testament dative in cases of intestate succession;

"Gazette" shall mean the 'London Gazette' for England, the 'Edinburgh Gazette' for Scotland, and the 'Dublin Gazette' for Ireland.

80. The enactments specified in the First Schedule hereto are hereby repealed to the extent appearing in the third column of that schedule.

SCHEDULE I.

ENACTMENTS REPEALED.

Section 80.

Session and Chapter.	Short Title.	Extent of Repeal.
39 & 40 Vict., c. 45	The Industrial and Provident Societies Act, 1876.	The whole Act.
43 Vict., c. 14	The Customs and Inland Revenue Act, 1880.	Section 8.
46 & 47 Vict., c. 47	The Provident Nominations and Small Intestacies Act, 1883.	So much as relates to industrial and provident societies.

SCHEDULE II.

MASTERS TO BE PROVIDED FOR BY THE RULES OF SOCIETIES REGISTERED UNDER THIS ACT.

Section 10.

1. Object, name, and registered office of the society.

2. Terms of admission of the members, including any society or company investing funds in the society under the provisions of this Act.

3. Mode of holding meetings, scale and right of voting, and of making, altering, or rescinding rules.

4. The appointment and removal of a committee of management, by whatever name, of managers or other officers, and their respective powers and remuneration.

5. Determination of the amount of interest, not exceeding two hundred pounds sterling, in the shares of the society which any member other than a registered society may hold.

6. Determination whether the society may contract loans or receive money on deposit subject to the provisions of this Act from members or others; and, if so, under what conditions, on what security, and to what limits of amount.

7. Determination whether the shares or any of them shall be transferable; and provision for the form of transfer and registration of the shares, and for the consent of the committee thereto; determination whether the shares or any of them shall be withdrawable, and provision for the mode of withdrawal and for payment of the balance due thereon on withdrawing from the society.

8. Provision for the audit of accounts and for the appointment of auditors or a public auditor.

9. Determination whether and how members may withdraw from the society, and provision for the claims of the representatives of deceased members, or the trustees of the property of bankrupt members, and for the payment of nominees.

10. Mode of application of profits.

11. Provisions for the custody and use of the seal of the society.

12. Determination whether, and by what authority, and in what manner, any part of the capital may be invested.

SCHEDULE III.

FORM OF STATEMENT TO BE MADE OUT BY A SOCIETY CARRYING ON THE BUSINESS OF BANKING.

Sections 19, 43, 44, 47.

1. Capital of the society—
   (*a*) Nominal amount of each share;
   (*b*) Number of shares issued;
   (*c*) Amount paid up on shares.
2. Liabilities of the society on the first day of January (or July) last previous—
   (*a*) On judgments;
   (*b*) On specialty;
   (*c*) On notes or bills;
   (*d*) On simple contract;
   (*e*) On estimated liabilities.
3. Assets of the society on the same date—
   (*a*) Government or other securities (stating them);
   (*b*) Bills of exchange and promissory notes;
   (*c*) Cash at the bankers;
   (*d*) Other securities.

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FRIENDLY SOCIETIES.*

[38 & 39 VICT., CH. 60.]

ARRANGEMENT OF SECTIONS.

Section.
1. Short title of Act.
2. Commencement of Act.
3. Extent of Act.
4. Definitions.

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6. As to existing societies.

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8. Classes of societies.
9. Limited application of Act.
10. The registry office.
11. Registry of societies.
12. Cancelling and suspension of registry.
13. Rules and amendments.
14. Duties and obligations of societies.

* *See* Vol. I, pp. 185–87.

15. Privileges of societies.
16. Property and funds of societies.
17. Investments with National Debt Commissioners.
18. Loans to members.
19. Accumulating surplus of contributions for member's use.
20. Officers in receipt or charge of money.
21. Legal proceedings.
22. Disputes.
23. Special powers of registrars to be exercised on application from members.
24. Special resolutions and proceedings which may be taken thereon.
25. Dissolution of societies.
26. Militiamen and volunteers not to lose benefits.
27. Limitations of benefits.
28. Payments on death of children.
29. Societies with branches.
29A. Conversion of registered societies into branches.
29B. Registered societies may contribute to funds of other societies.
29C. Forms of acknowledgment of registry for branches.
30. Societies, &c., receiving contributions by collectors.
31. As to cattle insurance and certain other societies.
32. Penalties.
33. Summary procedure and appeals.
34. Regulation of proceedings in county courts.
35. Public auditors.
36. Fees.
36A. Amendment in fees payable on certificates of births or deaths.
37. Payment of salaries and expenses.
38. Regulations to be made for carrying out the Act.
39. Evidence of documents.
40. Application of Act to Isle of Man.
41. Application of Act to Channel Islands.

SCHEDULES.
APPENDIX.

CHAPTER 60.

*An Act to consolidate and amend the Law relating to Friendly and other Societies.** [11TH AUGUST 1875.]

* * * * *

1. This Act may be cited as The Friendly Societies Act, 1875.

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8. The following societies may be registered under this Act, viz.—

(1) Societies (herein called friendly societies) established to provide by voluntary subscriptions of the members thereof, with or without the aid of donations—

For the relief or maintenance of the members, their husbands, wives, children, fathers, mothers, brothers, or sisters, nephews or nieces, or wards being orphans, during sickness or other infirmity, whether bodily or mental, in old age (which shall mean any age after fifty) or in widowhood, or for the relief or maintenance of the orphan children of members during minority;

For insuring money to be paid on the birth of a member's child, or on the death of a member, or for the funeral expenses of the husband, wife, or child of a member, or of the widow of a deceased member, or, as respects persons of the Jewish persuasion, for the payment of a sum of money during the period of confined mourning;

For the relief or maintenance of the members when on travel in search of employment, or when in distressed circumstances, or in case of shipwreck, or loss or damage of or to boats or nets;

For the endowment of members or nominees of members at any age;

For the insurance against fire to any amount not exceeding fifteen pounds of the tools or implements of the trade or calling of the members;

Provided that no society (except as aforesaid) which contracts with any person for the assurance of an annuity exceeding fifty pounds per annum, or of a gross sum exceeding two hundred pounds, shall be registered under this Act:

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(2) Societies (herein called cattle insurance societies) for the insurance to any amount against loss by death of neat cattle, sheep, lamps, swine, and horses from disease or otherwise:

(3) Societies for any benevolent or charitable purpose (herein called benevolent societies):

(4) Societies (herein called working men's clubs) for purposes of social intercourse, mutual helpfulness, mental and moral improvement, and rational recreation:

(5) Societies for any purpose which the Treasury may authorise as a purpose to which the powers and facilities of this Act ought to be extended (herein called "specially authorised societies").

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* The text of this Act is printed as modified according to the Amendment Act of 1887. Only such sections as are relevant to the present study are here printed. A new Act is shortly to be passed.

9. The Treasury may limit the application of this Act, as respects specially authorised societies, to such of the provisions herein contained as may be specified in the authority for registering any such society.

10. With respect to the registry office, the following provisions shall have effect:—

(1) There shall be a chief registrar of friendly societies (herein termed "the chief registrar"), and one or more assistant registrars of friendly societies for England (herein termed "assistant registrars for England"), and such chief registrar and assistant registrars for England shall constitute the central office after mentioned. There shall be an assistant registrar of friendly societies for Scotland (herein termed "assistant registrar for Scotland"), and an assistant registrar of friendly societies for Ireland (herein termed "assistant registrar for Ireland").

(2) Every chief registrar and assistant registrar shall be appointed by and shall hold his office during the pleasure of the Treasury.

(3) Every chief registrar shall be a barrister of not less than twelve years standing, and one at least of the assistant registrars for England, and every assistant registrar for Ireland shall be a barrister or solicitor of not less than seven years' standing, and every assistant registrar for Scotland an advocate, writer to the signet, or solicitor of not less than seven years' standing. The central office may also, with the approval of the Treasury, have attached to it such assistants skilled in the business of an actuary and an accountant as shall from time to time be required for discharging the duties imposed on the office by this Act.

(4) The central office shall exercise all the functions and powers which are now by law vested in the registrar of friendly societies or the registrar of building societies for England, or as respects loan societies, building societies, and societies instituted for purposes of science, literature, or the fine arts, in the barrister appointed to certify the rules of savings banks or friendly societies, and shall be entitled to receive all statutory fees payable to such registrar or barrister, and all enactments relating to such registrar or barrister, so far as respects such societies as aforesaid, shall be construed as applying to the central office.

(5) The central office shall, with the approval of the Treasury, from time to time—

(*a*) prepare and cause to be circulated, for the use of societies, model forms of accounts, balance sheets, and valuations:

(*b*) collect from the returns under this Act and from other sources, and publish and circulate, either generally or in any particular district, or otherwise make known such information on the subject of the statistics of life and sickness, and the application thereof to the business of friendly societies, and from time to time publish generally or in particular districts such particulars of their returns and valuations, and such other information useful to the members of or to persons interested in friendly or other societies registered or which might be registered under this Act, as the chief registrar shall from time to time think fit:

(*c*) cause to be constructed and published tables for the payment of sums of money on death, in sickness, or old age, or on any other contingency forming the subject of an assurance authorised under this Act which may appear to be calculable: Provided, nevertheless, that the adoption of such tables by any society shall be optional.

(6) The chief registrar shall every year lay before Parliament a report of his proceedings and of those of the assistant registrars, and of the principal matters transacted by him and them and of the valuations returned to or caused to be made by the registrar during the year preceding.

(7) The assistant registrars shall, except as after provided, be subordinate to the chief registrar. They shall, within the countries for which they are respectively appointed, exercise all functions and powers by this Act given to the registrar, and may also, by the written authority of the chief registrar, exercise such of the functions and powers by this Act given to the chief registrar as he shall from time to time delegate to them.

(8) Subject to any regulations to be made under this Act, the assistant registrars for Scotland and Ireland respectively shall—

(*a*) exercise all the functions and powers now vested in the registrars of friendly or building societies for Scotland and Ireland respectively, or as respects building societies and societies instituted for purposes of science, literature, or the fine arts, vested in Scotland in the Lord Advocate or his depute appointed to certify the rules of friendly societies there, or in Ireland in the barrister appointed to certify the rules of friendly societies there, and shall be entitled to receive all fees payable to such registrar, Lord Advocate or his depute, or barrister respectively, and so that all provisions in any Acts of Parliament not hereby repealed relating to such registrar, Lord Advocate or his depute, or barrister respectively, shall be construed as applying to such assistant registrars respectively:

(*b*) send to the central office copies of all such documents registered or recorded by them as the chief registrar shall from time to time direct:

(*c*) record all such documents and matters as shall be sent to them for record from the central office, and such other documents and matters as herein provided:

(*d*) circulate and publish, or transmit to or from societies registered within their respective countries, from or to the central office, such information and documents relating to the purposes of this Act as the chief registrar, with the approval of the Treasury, shall from time to time direct:

(*e*) report from time to time their proceedings to the chief registrar as he shall direct.

(9) No assistant registrar for Scotland or Ireland shall refuse to record any rules or amendments of rules which have been registered by the central office.

11. With respect to the registry of societies, the following provisions shall have effect:—

(1) No society can be registered under this Act which does not consist of seven persons at least.

(2) For the purpose of registry an application to register the society, signed by seven members

and the secretary, and written or printed copies of the rules, together with a list of the names of the secretary and of every trustee or other officer authorised to sue and be sued on behalf of the society, shall be sent to the registrar.

(3) No society shall be registered under a name identical with that under which any other existing society is registered, or so nearly resembling such name as to be likely, or in any name likely, in the opinion of the registrar, to deceive the members or the public as to its nature or its identity, and no society shall change its name without the sanction of the chief or an assistant registrar as after provided.

(4) A society (other than a benevolent society or working men's club) shall not be disentitled to registry by reason of any rule for or practice of dividing any part of the funds thereof if the rules thereof contain distinct provision for meeting all claims upon the society existing at the time of division before any such division takes place.

(5) No society assuring to any member a certain annuity shall be entitled to registry, unless the tables of contributions for such assurance, certified by the actuary to the Commissioners for the Reduction of the National Debt, or by some actuary approved by the Treasury, who has exercised the profession of actuary for at least five years, be sent to the registrar with the application for registry.

(6) Societies carrying or intending to carry on business in more than one country shall be registered in the country in which their registered office, as herein mentioned, is situate; but copies of the rules of such societies, and of all amendments of the same, shall, when registered, be sent to the registrar of each of the other countries, to be recorded by him; and until such rules be so recorded the society shall not be entitled to any of the privileges of this Act in the country in which such rules have not been recorded, and until such amendments of rules be recorded the same shall not take effect in such country.

(7) The registrar, on being satisfied that a society has complied with the provisions as to registry in force under this Act, shall issue to such society an acknowledgment of registry, which shall specify the designation of the society, according to the classification herein set forth.

(8) If any registrar refuse to register the society or any rules, the society may appeal from such refusal, as follows:—

(*a*) If the assistant registrar for Ireland refuse to register, to the Court of Queen's Bench at Dublin:

(*b*) If the assistant registrar for Scotland refuse to register, to the Court of Session:

(*c*) If the central office or the chief registrar refuse to register, to the Court of Queen's Bench in England:

(*d*) Either division of the Inner House of the Court of Session, the Court of Queen's Bench at Dublin, and the Judges of the Court of Queen's Bench in England respectively, may make rules or orders as to the form of appeals and the trying thereof and otherwise relating thereto.

(9) If the refusal of registry be overruled on appeal, an acknowledgment of registry shall thereupon be given to the society by the registrar.

(10) The acknowledgment of registry shall be conclusive evidence that the society therein mentioned is duly registered, unless it be proved that the registry of the society has been suspended or cancelled.

12. With respect to the cancelling or suspension of registry the following provisions shall have effect:—

(1) The chief registrar, or in the case of societies registered and doing business in Ireland or Scotland exclusively, the assistant registrar for Ireland or Scotland respectively, may cancel the registry of a society by writing under his hand,—

(*a*) If he thinks fit, at the request of a society, to be evidenced in such manner as he shall from time to time direct:

(*b*) With the approval of the Treasury, on proof to his satisfaction that an acknowledgment of registry has been obtained by fraud or mistake, or that a society exists for an illegal purpose, or has wilfully and after notice from a registrar whom it may concern violated any of the provisions of this Act, or has ceased to exist.

(2) The chief or assistant registrar, in any case in which he might, with the approval of the Treasury, cancel the registry of a society, may suspend the same, by writing under his hand, for any term not exceeding three months, and may, with the approval of the Treasury, renew such suspension from time to time for the like period.

(3) Not less than two months previous notice in writing, specifying briefly the ground of any proposed cancelling or suspension of registry, shall be given by the chief or assistant registrar to a society before the registry of the same can be cancelled (except at its request) or suspended; and notice of every cancelling or suspension shall be published in the Gazette, and in some newspaper circulating in the county in which the registered office of the society is situated, as soon as practicable after the same takes place.

(4) A society may appeal from the cancelling of its registry, or from any suspension of the same which is renewed after six months, in manner herein provided for appeals from the chief registrar's or the registrar's refusal to register respectively.

(5) A society whose registry has been suspended or cancelled shall from the time of such suspension or cancelling (but if suspended, only while such suspension lasts, and subject also to the right of appeal hereby given) absolutely cease to enjoy as such the privileges of a registered society, but without prejudice to any liability actually incurred by such society, which may be enforced against the same as if such suspension or cancelling had not taken place.

13. With respect to the rules of societies the following provisions shall have effect:—

(1) The rules of every society sent for registry shall, according to the class in which the society is to be registered, contain provisions in respect of the several matters mentioned in the second schedule to this Act.

(2) No amendment of a rule made by a registered society shall be valid until the same has been registered under this Act, for which purpose copies of the same, signed by three members and the secretary, shall be sent to the registrar.

(3) The provision herein contained as to appeals from a refusal of registry shall apply to amendments of rules.

(4) The registrar shall, on being satisfied that any amendment of a rule is not contrary to the provisions of this Act, issue to the society an acknowledgment of registry of the same, which shall be conclusive evidence that the same is duly registered.

(5) A copy of the rules of a registered society shall be delivered by the society to every person on demand, on payment of a sum not exceeding one shilling.

(6) If any person, with intent to mislead or defraud, gives to any other person a copy of any rules, laws, regulations, or other documents, other than the rules for the time being registered under this Act, on the pretence that the same or existing rules of a registered society, or that there are no other rules of such society, or gives to any person a copy of any rules on the pretence that such rules are the rules of a registered society when the society is not registered, the person so offending shall be deemed guilty of a misdemeanor.

14. With respect to the duties and obligations of registered societies the following provisions shall have effect:—

(1) Every registered society shall—

(*a*) have a registered office to which all communications and notices may be addressed, and send to the registrar notice of the situation of such office, and of every change therein:

(*b*) from time to time at some meeting of the society, and by a resolution of a majority of the members present and entitled to vote thereat, appoint one or more trustees of the society, and send to the registrar a copy of every resolution appointing a trustee, signed by the trustee so appointed, and by the secretary of the society:

(*c*) once at least in every year submit its accounts for audit either to one of the public auditors appointed as herein mentioned, or to two or more persons appointed as the rules of the society provide, which auditors shall have access to all the books and accounts of the society, and shall examine the general statement of the receipts and expenditure, funds and effects of the society, and verify the same with the accounts and vouchers relating thereto, and shall either sign the same as found by them to be correct, duly vouched, and in accordance with law or specially report to the society in what respects they find it incorrect, unvouched, or not in accordance with law:

(*d*) once in every year before the first day of June send to the registrar a general statement (to be called the annual return) of the receipts and expenditure, funds and effects of the society as audited, which shall show separately the expenditure in respect of the several objects of the society, and shall be made out to the thirty-first December then last inclusively, and a copy of the auditor's report, if any, shall also be sent to the registrar with such general statement; and such annual return shall state whether the audit has been conducted by a public auditor appointed as in this Act provided, and by whom; and, if by any person or persons other than a public auditor, shall state the name, address, and calling or profession of each of such persons, and the manner in which and the authority under which they were respectively appointed:

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(*f*) once at least in every five years either cause its assets and liabilities to be valued by a valuer to be appointed by the society, and send to the registrar a report, signed by such valuer, and which shall also state his address and calling or profession, on the condition of the society, and an abstract to be made by him of the results of his valuation, together with a return containing such information with respect to the benefits assured and contributions receivable by the society, and of its funds and effects, debts and credits, as the registrar may from time to time require, or send to the registrar a return of the benefits assured and contributions receivable from all the members of the society, and of all its funds and effects, debits and credits, accompanied by such evidence in support thereof as the chief registrar prescribes, in which case the registrar shall cause the assets and liabilities of the society to be valued and reported on by some actuary, and shall send to the society a copy of his report, and an abstract of the results of his valuation:

(*g*) allow any member or person having an interest in the funds of the society to inspect the books at all reasonable hours at the registered office of the society, or at any place where the same are kept, except that no such member or person, unless he be an officer of the society, or be specially authorised by a resolution of the society to do so, shall have the right to inspect the loan account of any other member without the written consent of such member:

(*h*) supply gratuitously every member or person interested in the funds of the society, on his application, with a copy of the last annual return of the society for the time being: Provided that it shall be deemed a sufficient compliance with this requirement if the society supplies gratuitously every member or person interested with a balance sheet or other document, duly audited, containing the same particulars as to the receipts and expenditure, funds, and effects of the society as are contained in the annual return:

(*i*) keep a copy of the last annual balance sheet for the time being, and of the last quinquennial valuation for the time being, together with the report of the auditors, if any, always hung up in a conspicuous place at the registered office of the society.

This subsection shall apply to a registered branch of a society as if it were a registered society, except that every notice, copy of a resolution, and annual return required by this subsection to be sent to the registrar, shall be sent through an officer appointed in that behalf by the society of which the branch forms part.

(2) No society shall pay any sum of money upon the death of a member or other person whose death is or ought to be entered in any register of deaths, except upon the production of a certificate of such death, under the hand of the registrar of deaths, or other person having the care of the register of deaths in which such death is or ought to be entered.

This subsection shall not apply to deaths at sea.

(3) It shall be an offence under this Act if any registered society or any officer or member thereof—

(*a*) fails to give any notice, send any return or document, or do or allow to be done any act or thing which the society, officer, or person is by this Act required to give, send, do, or allow to be done:

(*b*) wilfully neglects or refuses to do any act or to furnish any information required for the purposes of this Act by the chief or any other registrar or other person authorised under this Act, or does any act or thing forbidden by this Act:

(*c*) makes a return or wilfully furnishes information in any respect false or insufficient.

(4) Every offence by a society under this Act shall be deemed to have been also committed by every officer of the same bound by the rules thereof to fulfil any duty whereof such offence is a breach, or if there be no such officer, then by every member of the committee of management of the same, unless such member be proved to have been ignorant of or to have attempted to prevent the commission of such offence; and every default under this Act constituting an offence, if continued, constitutes a new offence in every week during which the same continues.

(5) Every annual or other return, abstract of valuation, and other document required for the purposes of this Act shall be made in such form and shall contain such particulars as the chief registrar prescribes.

(6) All documents by this section required to be sent to the registrar shall be deposited with the rules of the societies to which the same respectively relate, and shall be registered or recorded by the registrar, with such observations thereon, if any, as the chief registrar shall direct:

Provided that the chief registrar, with the approval of the Treasury, may dispense with the valuation herein required in respect of societies to whose purposes or to the nature of whose operations he may deem the same inapplicable; and the provisions herein contained in respect of the valuation shall not apply to benevolent societies, working men's clubs, or cattle insurance societies, nor to specially authorised societies, unless it be so directed in the authority for registering the same.

15. Registered societies shall be entitled to the following privileges:—

(1) No society or meeting of a society shall be affected by any of the provisions of the Acts of the thirty-ninth George the Third, chapter seventy-nine, or the fifty-seventh George the Third, chapter nineteen, if in such society or at such meeting no business is transacted other than that which directly and immediately relates to the objects of the society as declared in the registered rules thereof, but such society and all officers of the same shall, on request in writing by two justices of the peace, give full information to such justices of the nature, objects, proceedings, and practices of the society, in default whereof the provisions of the Acts in this section referred to shall, so far as applicable, be in force in respect of such society.

(2) Stamp duty shall not be chargeable upon any of the following documents:—

(*a*) Power, warrant, or letter of attorney, granted by any person as trustee for the transfer of any money of the society invested in his name in the public funds:

(*b*) Order or receipt for money contributed to or received from the funds of the society by virtue of its rules or of this Act:

(*c*) Bond given to or on account of the society, or by the treasurer or other officer thereof:

(*d*) Draft or order, or form of policy, or appointment or revocation of appointment of agent, or other document required or authorised by this Act, or by the rules of the society.

(3) A member of a society (other than a benevolent society or working men's club), not being under the age of sixteen years, may, by writing under his hand delivered at or sent to the registered office of the society, nominate any person, not being an officer or servant of the society, unless such officer or servant is the husband, wife, father, mother, child, brother, sister, nephew, or niece of the nominator, to whom any moneys payable by the society on the death of such member, not exceeding *fifty pounds*,* shall be paid at his decease, and may from time to time revoke or vary such nomination by a writing under his hand similarly delivered or sent; and on receiving satisfactory proof of the death of a nominator, the society shall pay to the nominee the amount due to the deceased member, not exceeding the sum aforesaid.

(4) If any member of a society, entitled from the funds thereof to a sum not exceeding *fifty pounds*,* dies intestate and without having made any nomination under this Act which remains unrevoked at his death, such sum shall be payable, without letters of administration, to the person who appears to a majority of the trustees, upon such evidence as they may deem satisfactory, to be entitled by law to receive the same.

(5) Whenever the society, after the decease of any member, pays any sum of money to the person who at the time appears to the trustees to be entitled under this section, the payment is valid and effectual against any demand made upon the trustees or the society by any other person.

(6) When any person, being or having been a trustee of a society, and whether appointed before or after the legal establishment thereof, in whose name any stock belonging to such society transferable at the Bank of England or Bank of Ireland is standing, either jointly with another or others, or solely, is absent from Great Britain or Ireland respectively, or becomes bankrupt or files any petition or executes any deed for liquidation of his affairs by assignment or arrangement, or for composition with his creditors, or becomes a lunatic, or is dead, or has been removed from his office of trustee, or if it be unknown whether such person is living or dead, the chief registrar, on application in writing from the secretary and three members of the society, and on proof satisfactory to him, may direct the transfer of the stock into the names of any other persons as trustees for the society; and such

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* One hundred pounds substituted for "fifty pounds," 46 & 47 Vict., c. 47, s. 3.

transfer shall be made by the surviving or continuing trustees, and if there be no such trustee, or if such trustees refuse or be unable to make such transfer, and the chief registrar so direct, then by the Accountant-General or Deputy or Assistant Accountant-General of the Bank of England or Bank of Ireland, as the case may be; and the Governors and Companies of the Bank of England and Bank of Ireland respectively are hereby indemnified for anything done by them or any of their officers in pursuance of this provision against any claim or demand of any person injuriously affected thereby.

(7) Upon the death, or bankruptcy, or insolvency of any officer of a society having in his possession by virtue of his office any money or property belonging to the society, or if any execution, attachment, or other process be issued, or action or diligence raised against such officer or against his property, his heirs, executors, or administrators, or trustee in bankruptcy or insolvency, or the sheriff or other person executing such process, or the party using such action or diligence respectively shall, upon demand in writing of the trustees of the society, or any two of them, or any person authorised by the society, or by the committee of management of the same, to make such demand, pay such money and deliver over such property to the trustees of the society in preference to any other debts or claims against the estate of such officer.

Bankruptcy or insolvency in the present section includes liquidation of a debtor's affairs by arrangement in England, cessio bonorum of a debtor in Scotland, and a petition for arrangement with creditors in Ireland; and a trustee in bankruptcy or insolvency includes an assignee in Ireland and a judicial factor in Scotland.

(8) A person under the age of twenty-one but above the age of sixteen may be a member of a society, unless provision be made in the rules thereof to the contrary, and may, subject to the rules of the society, enjoy all the rights of a member (except as herein provided), and execute all instruments and give all acquittances necessary to be executed or given under the rules, but shall not be a member of the committee of management, trustee, manager, or treasurer of the society.

Provided as follows:—

(*a*) Societies and branches, consisting wholly of members of any age under twenty-one years, but exceeding three years, may be allowed to register under this Act, subject to such regulations as may be made in that behalf:

(*b*) No rule or practice in force at the commencement of this Act for the admission of members under sixteen years of age shall be deemed contrary to any express provision of this Act as respects any society already registered.

(9) For the purpose of this Act a certificate of the birth or death of any member of or person insured or to be insured with a registered friendly society shall be given under his hand by the registrar of births or deaths, or other person having the care of the register of births or deaths, in which such birth or death is entered, for a sum not exceeding one shilling, in place of all fees or payments in respect of the same, on application being made for the same in such form and under such regulations as shall be approved of by the registrar-general of births, deaths, and marriages for England, Scotland, and Ireland respectively.

(10) A society may subscribe out of its funds to any hospital, infirmary, charitable or provident institution, any annual or other sum which may be necessary to secure to members of the society and their families the benefits of such hospital, infirmary, or other institution, according to its rules.

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18. With respect to loans to members of registered societies, the following provisions shall have effect:—

(1) Not more than one-half of the amount of an assurance on the life of a member of at least one full year's standing may be advanced to him, on the written security of himself and two satisfactory sureties for repayment; and the amount advanced, with all interest thereon, may be deducted from the sum assured, without prejudice in the meantime to the operation of such security.

(2) A society may, out of any separate loan fund to be formed by contributions or deposits of its members, make loans to its members on their personal security, with or without sureties, as may be provided by the rules, subject to the following restrictions:—

(*a*) No loan can at any time be made out of moneys contributed for the other purposes of the society:

(*b*) No member shall be capable of holding any interest in the loan fund exceeding two hundred pounds:

(*c*) No society shall make any loan to a member on personal security beyond the amount fixed by the rules, or shall make any loan which, together with any moneys for the time being owing by a member to the society, shall exceed fifty pounds:

(*d*) No society shall hold at any one time on deposit from its members any moneys beyond the amount fixed by the rules, which shall not exceed two-thirds of the total sums for the time being owing to the society by the members who have borrowed from the loan fund.

19. The rules of a society may provide for accumulating at interest, for the use of any member of the same, any surplus of his contributions to the funds of the society which may remain after providing for any assurance in respect of which the same are paid, and for the withdrawal of such accumulations from time to time.

20. With respect to officers of registered societies having receipt or charge of money, the following provisions shall have effect:—

(1) Every officer, if the rules of the society require, shall, before taking upon himself the execution of his office, become bound with one sufficient surety at the least in a bond according to one of the forms set forth in the third schedule to this Act, or give the security of a guarantee society, in such sum as the society directs, conditioned for his rendering a just and true account of all moneys received and paid by him on account of the society at such times as its rules appoint, or as the society or the trustees or committee of management thereof require him to do so, and for the payment by him of all sums due from him to the society.

(2) Every officer, his executors or administrators, shall, at such times as by the rules of the society he should render account, or upon demand made, or notice in writing given or left at his last or usual place of residence, give in his account as may be required by the society, or by the trustees or committee of management of the society, to be examined and allowed or disallowed by them, and shall, on the like demand or notice, pay over all moneys and deliver all property for the time being in his hands or custody to such person as the society, or the committee of management, or the trustees appoint; and in case of any neglect or refusal to deliver such account, or to pay over such moneys or to deliver such property in manner aforesaid, the trustees or authorised officers of the society may sue upon the bond or security before mentioned, or may apply to the county court (which may proceed in a summary way), or to a court of summary jurisdiction, and the order of either such court shall be final and conclusive.

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22. Every dispute between a member or person claiming through a member or under the rules of a registered society, and the society or an officer thereof, or between any registered branch under the Friendly Societies Acts, or an officer thereof, of any registered society or registered branch and the registered society or branch of which the other party to the dispute is a registered branch, or an officer thereof, or between any two or more registered branches of any registered society or branch, or any officers thereof, respectively, shall be decided in manner directed by the rules of the society, and the decision so made shall be binding and conclusive on all parties without appeal, and shall not be removable into any court of law or restrainable by injunction; and application for the enforcement thereof may be made to the county court.

Provided as follows:—

(*a*) The parties to a dispute in a society may, by consent (unless the rules of such society expressly forbid it), refer such dispute to the chief registrar, or to the assistant registrar in Ireland or Scotland, who shall, with the consent of the Treasury, either by himself or by any other registrar, hear and determine such dispute, and shall have power to order the expenses of determining the same to be paid either out of the funds of the society or by such parties to the dispute as he shall think fit, and such determination and order shall have the same effect and be enforceable in like manner as a decision made in the manner directed by the rules of the society:

(*b*) The chief or other registrar to whom any dispute is referred may administer oaths, and may require the attendance of all parties concerned, and of witnesses, and the production of all books and documents relating to the matter in question; and any person refusing to attend, or to produce any documents, or to give evidence before such chief or other registrar, shall be guilty of an offence under this Act:

(*c*) Where the rules of a society direct that disputes shall be referred to justices, the dispute shall be determined by a court of summary jurisdiction:

Provided that in every case of dispute cognisable under the rules of a society by a court of summary jurisdiction, it shall be lawful for the parties thereto to enter into a consent referring such dispute to the county court which may hear and determine the matter in dispute:

(*d*) Where the rules contain no direction as to disputes, or where no decision is made on a dispute within forty days after application to the society for a reference under its rules, the member or person aggrieved may apply either to the county court, or to a court of summary jurisdiction, which may hear and determine the matter in dispute:

(*e*) The court, chief or other registrar, may, at the request of either party, state a case for the opinion in England of the Supreme Court of Judicature, in Scotland of either division of the Inner House of the Court of Session, or in Ireland of one of the superior courts of common law at Dublin, on any question of law, and may also grant to either party such discovery as to documents and otherwise, or such inspection of documents, and in Scotland may grant warrant for the recovery of documents and examination of havers, as might be granted by any court of law or equity, such discovery to be made on behalf of the society by such officer of the same as such court or registrar may determine.

23. Upon the application of one-fifth of the whole number of members of a registered society, or of one hundred members in the case of a society of one thousand members and not exceeding ten thousand, or of five hundred members in the case of a society of more than ten thousand members, the chief registrar, or the assistant registrar for Scotland or Ireland, or in cases of societies registered and doing business exclusively in Ireland or in Scotland the assistant registrars for Ireland and Scotland respectively, but with the consent of the Treasury in every case, may—

(1) appoint one or more inspectors to examine into the affairs of such society, and to report thereon, who may require the production of all or any of the books and documents of the society, and may examine on oath its officers, members, agents, and servants in relation to its business, and may administer such oath accordingly:

(2) call a special meeting of the society in such manner and at such time and place as the chief registrar or such assistant registrar may direct, and may direct what matters shall be discussed and determined on at such meeting, which shall have all the powers of a meeting called according to the rules of the society, and shall in all cases have power to appoint its own chairman, any rule of the society to the contrary notwithstanding.

Provided that—

(*a*) the application herein mentioned shall be supported by such evidence, for the purpose of showing that the applicants have good reason for requiring such inspection to be made or meeting to be called, and that they are not actuated by malicious motives in their application, and such notice thereof shall be given to the society, as the chief registrar shall direct:

(*b*) the chief registrar or such assistant registrar may, if he think fit, require the applicants to give security for the costs of the proposed inspection or meeting, before appointing any inspector or calling such meeting:

(*e*) all expenses of and incidental to any such inspection or meeting shall be defrayed by the members applying for the same, or out of the funds of the society, or by the members or officers, or former members or officers, of the society in such proportions as the chief or such assistant registrar shall direct:

(*d*) this section shall apply to every society to which section thirty of this Act applies, other than an industrial assurance company, but save as aforesaid shall not apply to a society with branches, unless with the consent of the central body of such society.

* * * * *

25. With respect to the dissolution of registered societies, the following provisions shall have effect:—

(1) A society may terminate or be dissolved in any of the following ways:—

(*a*) Upon the happening of any event declared by the rules to be the termination of the society:

(*b*) As respects all societies other than friendly societies, by the consent of three-fourths of the members, testified by their signatures to the instrument of dissolution:

(*c*) As respects friendly societies, by the consent of five-sixths in value of the members (including honorary members, if any), testified by their signatures to the instrument of dissolution, and also by the written consent of every person for the time being receiving or entitled to receive any relief, annuity, or other benefit from the funds of the society, unless the claim of such person be first duly satisfied, or adequate provision made for satisfying such claim, and in the case of a branch with the consent of the central body of the society, or in accordance with the general rules of the society.

(*d*) By the award of the chief registrar or assistant registrars in the cases herein specified.

* * * * *

(8) With respect to dissolutions and the distribution of funds upon the award of the chief registrar:

(*a*) Upon the application of one-fifth of the whole number of members of any registered society, or of one hundred members in the case of a society of one thousand members and not exceeding ten thousand, or of five hundred members in the case of a society of more than ten thousand members, made in writing under their hands, setting forth that the funds of the society are insufficient to meet the existing claims thereon, or that the rates of contribution fixed in the rules of such society are insufficient to cover the benefits assured, and the grounds upon which such insufficiency is alleged, and requesting an investigation into the affairs of such society with a view to the dissolution thereof, the chief registrar may by himself, or by any assistant registrar, or by any actuary or public auditor whom the chief registrar may appoint in writing under his hand, investigate the affairs of the society, giving nevertheless not less than two months previous notice in writing to the society whose affairs are to be investigated at the registered office of such society:

(*b*) If upon such investigation it appears that the funds of the society are insufficient to meet the existing claims thereon, or that the rates of contribution fixed in the rules of the society are insufficient to cover the benefits assured to be given by the same, the chief registrar may, if he considers it expedient so to do, award that the society shall be dissolved, and its affairs wound up, and shall direct in what manner the assets of the society shall be divided or appropriated: Provided always, that the chief registrar may suspend his award for such period as he may deem necessary to enable the society to make such alterations and adjustment of contributions and benefits as will in his judgment prevent the necessity of such award of dissolution being made:

(*c*) A registrar proceeding under this section has all the same powers and authorities, enforceable by the same penalties, as in the case of a dispute referred to him under this Act:

(*d*) Every award under this section, whether for dissolution or distribution of funds, is final and conclusive on the society in respect of which the same is made, and on all members of the same, and other persons having any claim on the funds of the society, without appeal, and shall be enforced in the same manner as a decision on a dispute under this Act; and the expenses of every investigation and award, and of publishing every notice of dissolution, shall be paid out of the funds of the society before any other appropriation thereof shall be made:

(*e*) Notice of every award for dissolution shall, within twenty-one days after the same shall have been made, be advertised by the central office in the Gazette, and in some newspaper circulating in the county in which the registered office of the society is situated, and unless, within three months from the date of the Gazette in which such advertisement appears, a member or other person interested in or having any claim on the funds of the society commences proceedings to set aside the dissolution of the society, consequent upon such award, and such dissolution is set aside accordingly, the society shall be legally dissolved from the date of such advertisement, and the requisite consents to the application to the registrar shall be considered to have been duly obtained without proof of the signatures thereto.

* * * * *

32. With respect to penalties under this Act, the following provisions shall have effect:—

(1) If any person wilfully makes, orders, or allows to be made any entry, erasure in, or omission from any balance sheet of a registered society, or any contribution or collecting book, or any return or document required to be sent, produced, or delivered for the purposes of this Act, with intent to falsify the same, or to evade any of the provisions of this Act, he is liable to a penalty not exceeding fifty pounds, recoverable at the suit of the chief or any assistant registrar or of any person aggrieved.

(2) Every Society, officer or member of a society, or other person guilty of an offence under this Act for which no penalty is expressly provided herein is liable to a penalty of not less than one pound and not more than five pounds, recoverable at the suit of the chief or any assistant registrar or of any person aggrieved.

(3) All penalties imposed by this Act, or to be imposed by any regulations under the same, or by the rules of a registered society, are recoverable in a court of summary jurisdiction.

* * * * *

35. The Treasury may from time to time appoint public auditors and valuers for the purposes of this Act, and may determine from time to time the rates of remuneration to be paid by societies for the services of such auditors and valuers; but the employment of such auditors and valuers is not compulsory on any society.

36. The Treasury may determine a scale of fees to be paid for matters to be transacted or for the inspection of documents under this Act; but no fee shall be payable on the registry of any friendly, benevolent, or cattle insurance society, or working men's club, or of any amendment of the rules of the same.

All fees which may be received by any registrar under or by virtue of this Act shall be paid into the receipt of Her Majesty's Exchequer.

* * * * *

37. The Treasury shall, out of money to be provided by Parliament, pay to the chief and assistant registrars such salaries or other remunerations respectively, and such sums of money for defraying the expenses of office rent, salaries of assistants, clerks, and servants, remuneration for actuaries, accountants, and inspectors, computation of tables, publication of documents, diffusion of information, expenses of prosecutions, travelling expenses and other allowances of the chief or any assistant registrar, and other expenses which may be incurred for carrying out the purposes of this Act, and may also pay to any public auditors or valuers to be appointed under this Act such remuneration (if any) as the Treasury shall from time to time allow.

38. The Treasury may from time to time make regulations respecting registry and procedure under this Act, and the seal and forms to be used for such registry, and the duties and functions of the registrar, and the inspection of documents kept by the registrar under this Act, and generally for carrying this Act into effect.

All such regulations shall be laid before both Houses of Parliament within ten days after the approval thereof if Parliament is then sitting, or if not then sitting, then within ten days from the then next assembling of Parliament.

Until otherwise provided, the forms contained in the fourth schedule to this Act shall be used.

39. Every instrument or document, copy or extract of an instrument or document, bearing the seal or stamp of the central office, shall be received in evidence without further proof; and every document purporting to be signed by the chief or any assistant registrar, or any inspector, or public auditor or valuer under this Act, shall, in the absence of any evidence to the contrary, be received in evidence without proof of the signature.

* * * * *

SCHEDULE II.

Matters to be provided for by the Rules of Societies registered under this Act.

1. The name and place of office of the society.

2. The whole of the objects for which the society is to be established, the purposes for which the funds thereof shall be applicable, the terms of admission of members, the conditions under which any member may become entitled to any benefit assured thereby, and the fines and forfeitures to be imposed on any member.

3. The mode of holding meetings and right of voting, and the manner of making, altering, or rescinding rules.

4. The appointment and removal of a committee of management (by whatever name), of a treasurer and other officers, and of trustees, and in the case of a society with branches, the composition and powers of the central body, and the conditions under which a branch may secede from the society.

5. The investment of the funds, the keeping of the accounts, and the audit of the same once a year at least.

6. Annual returns to the registrar of the receipts, funds, effects, and expenditure and numbers of members of the society.

7. The inspection of the books of the society by every person having an interest in the funds of the society.

8. The manner in which disputes between the society and any of its members, or any person claiming through a member or under the rules, shall be settled.

9. In case of dividing societies, a provision for meeting all claims upon the society existing at the time of division before any such division takes place.

And also in the case of friendly and cattle insurance societies:—

1. The keeping separate accounts of all moneys received or paid on account of every particular fund or benefit assured for which a separate table of contributions payable shall have been adopted, and the keeping separate account of the expenses of management, and of all contributions on account thereof.

* * * * *

3. (Except as to cattle insurance societies) a valuation once at least in every five years of the assets and liabilities of the society, including the estimated risks and contributions.

4. The voluntary dissolution of the society by consent of not less than five-sixths in value of the members, and of every person for the time being entitled to any benefit from the funds of the society, unless his claim be first satisfied or adequately provided for.

5. The right of one-fifth of the total number of members, or of one hundred members in the case of a society of one thousand members and not exceeding ten thousand, or of five hundred members in the case of a society of more than ten thousand members, to apply to the chief registrar, or in case of societies registered and doing business exclusively in Ireland or Scotland to the assistant registrar for Ireland or Scotland, for an investigation of the affairs of the society, or for winding up the same.

* * * * *

II.

Extracts from 50 & 51 Vict., c. 56.

17. The Acts set forth in the Second Schedule to this Act are hereby repealed to the extent mentioned in the third column of the said schedule, without prejudice to anything done thereunder.

18. (1) The principal Act shall, as from the passing of this Act, take effect subject to the additions, omissions, and substitutions required by this Act.

(2) Any copy of the principal Act printed after the passing of this Act by any of the several printers to the Queen's Most Excellent Majesty duly authorised to print the Statutes of the United Kingdom may be printed with the additions, omissions, and substitutions required by this Act.

SECOND SCHEDULE.

Acts Repealed.

Session and Chapter.	Title.	Extent of Repeal.
38 & 39 Vict., c. 60	The Friendly Societies Act., 1875 ...	So much of section fourteen and of Schedule II as relates to sending to the registrar every five years a return, to be called a quinquennial return, of the sickness and mortality experienced by the society, or as relates to such return.
39 & 40 Vict., c. 32	The Friendly Societies Amendment Act, 1876.	The whole Act.
42 Vict., c. 9	An Act to declare the true meaning of section thirty of the Friendly Societies Act, 1875.	The whole Act.
45 & 46 Vict., c. 35	The Friendly Societies (Quinquennial Returns) Act, 1882.	The whole Act.
48 & 49 Vict., c. 27	The Friendly Societies Amendment Act, 1885.	The whole Act.

AN ACT TO AMEND THE LAWS RELATING TO LOAN SOCIETIES (ENGLAND), 1840.

[3 & 4 Vict., Ch. 110.]*

III. Be it enacted, that if any number of persons who have formed or shall form any society in *England* for establishing a fund for making loans to the industrious classes, and taking payment of the same by instalments, with interest thereon, shall be desirous of having the benefit of this Act, such persons shall cause the rules framed or to be framed for the management of such society to be certified, deposited, and enrolled in manner hereinafter directed, and thereupon shall have the benefit of the provisions contained in this Act.

IV to VI. (Three copies of the rules are to be sent to the barrister appointed to certify the rules of savings banks, who shall examine into their legality, and suitability to the objects of the society, and shall give his advice thereon; on approval he shall issue his certificate, and forward a copy of the certified rules to the court of Quarter Sessions which shall confirm and file them without costs or charge; the rules shall then become binding. The barrister's fee shall not exceed one guinea, nor shall he demand any further fee within three years, even though consulted regarding the rules.†)

IX. And be it enacted, that for every sum of money deposited or to be deposited with any loan society, otherwise than by way of gift, it shall be lawful for such society, if they shall think fit, to issue a debenture, to be registered in the books of the loan society by whom such debenture shall be payable; and no such debenture shall be liable to any stamp duty or parliamentary imposition whatever.‡

X. And be it enacted, that no treasurer, trustee, or other officer of any loan society subscribing, *i.e.*, signing debenture shall be individually responsible, in person or property, for the payment of the same, or of any interest thereon; but such debenture shall be a charge on the capital and property of

* The Act is not very successful, and the Registrar of Friendly, &c., Societies considers that it should be repealed, since it grants several important fiscal privileges, while advantage is frequently taken of its very general wording (*see* section III) by money-lenders who establish themselves as so-called 'societies.' Under proper restriction some of its provisions are useful. Many sections are either omitted or merely abstracted.

† The barrister here mentioned is the Registrar for Friendly, &c., Societies who has very important duties to perform as a State commissioner: *see* Vol. I, pp. 185–86, &c.

‡ *See* section XXXV in the Irish Act (1843) next following.

the society alone, unless such treasurer, trustee, or other officer shall, in the instrument or by writing at the foot or on the back thereof, declare his or their willingness to be so liable in person or property; and such understanding shall only apply to the specific sums so guaranteed.

XI. And be it enacted, that in case any debenture holder, depositor, or other claimant, entitled to receive any sum not exceeding fifty pounds out of the funds of any such loan society, shall die, it shall be lawful for the trustees or trustee thereof, from and after the expiration of three calendar months after the death of such debenture holder, depositor, or other claimant, if they shall be satisfied that no will was made and left by such deceased person, and that no letters of administration of the goods, chattels, rights, and credits of such deceased person have or will be taken out, to pay the same to any person who shall appear to the said trustees or trustee to be the person or one of the persons entitled under the statute of distribution to the effects of the deceased intestate, although no letters of administration shall have been taken out; and the payment of any such sum of money shall be valid and effectual with respect to any demand of any other person as next of kin of such deceased intestate, or as the lawful representative of such person, against the funds of such society, or against the trustee, treasurer, or officers thereof; but nevertheless such next of kin or representatives shall have remedy for such money so paid as aforesaid against the person who shall have received the same.

XII. (Every treasurer or other person entrusted with money must give due security by means of a bond.)

XIII. And be it enacted, that it shall not be lawful for any such society to lend to any person at the same time a greater sum than fifteen pounds, and that no second or other loan shall be made to the same person until the former loan shall have been repaid.

XIV. And be it enacted, that no note which shall be signed for the repayment of any loan made under this Act, nor any receipt or entry in any book of receipt for money lent or paid, nor any draft or order, nor any appointment of any agent, nor any other instrument whatever required to be made in pursuance of this Act, or of the rules of the society, shall be chargeable with any stamp duty whatever.

XV. And be it enacted, that no note of hand, bill, or other security for the payment of money taken by any such society shall be transferable by endorsement or otherwise to any person or party whomsoever, nor shall any such note, bill, or other security be sued upon by any person or party other than the society to whom the same shall have been made.

XVI. (Provides that on any default of payment a notice in writing shall be served on the defaulter; on further default any J. P. may take cognizance of a complaint made by the society, and, on due proof, shall order the payment of the arrears with moderate costs; failing such payment the J. P. shall issue his warrant for the distress and sale of the goods of the defaulter. No such complaint shall be removable by writ, &c., into any other court; the action of the society shall not, however, bar the rights of the landlord for his rent, so that the goods, though distrained, are still liable for the preferential right of the landlord).

XVII. (The society may also sue in the county or other court.)

XX. (The society may demand an enquiry fee from a candidate for a loan; such fee shall not exceed 1*s.* 6*d.*)

XXI. And be it enacted, that it shall be lawful for the trustees or trustee of any society established under the provisions of this Act to demand and receive from every person to whom a loan shall be made, by way of discount, at the time of making the same, the full amount which shall be specified by the enrolled rules of the society, not exceeding in the whole the rate of twelve pounds by the hundred, for the full term of one year, and to receive the amount of the principal sum of instalments, at such time or times, and in such proportion or proportions, as shall be specified by the enrolled rules, but so nevertheless that the first repayment shall not be paid sooner than the eleventh day after the day on which the loan shall have been actually granted and advanced, and that the time and manner of paying such instalments shall be taken into account in the calculation of the interest to be paid, and to take a note of hand for the whole amount of the loan, by which the same or so much thereof as shall then remain unpaid shall be recoverable immediately on failure of the payment of any instalment, without being liable on account thereof to any of the forfeitures or penalties imposed by any Act or Acts relating to usury.

XXII. And be it declared and enacted, that the instalments to be paid, and the corresponding sum charged for interest, may be such as is expressed in any one of the schemes mentioned in the schedule (E) to this Act annexed, and that the scheme which is adopted by any society, and the actual number of shillings and pence taken by way of interest for every loan, shall be fully and clearly set forth in the enrolled rules of such society; and that if such scheme shall in any respect differ from every one of the schemes set forth in the said schedule (E), it shall not be lawful for the said barrister to certify the rules of such society, until a certificate shall have been obtained under the hand of the actuary to the National Debt Office, to the effect that the rate of interest proposed to be taken, including therein all charges whatsoever, except the aforesaid sum of one shilling and six pence, or so much thereof as shall be charged for the form of application and expense of inquiry, is not greater than is allowed by this Act; for which certificate the said actuary shall be entitled to have a fee of one guinea, and no more.

XXIII. (The above enquiry fee and interest shall comprise the whole charges of every description which may be made for the loan).

XXVII. And be it enacted, that the trustees of every society established under the provisions of this Act, or which may become entitled to the benefits thereof, shall cause an abstract of the accounts of such society for each year to be made out, and up to the thirty-first day of *December*, together with a statement of the funds and effects and of the debts or liabilities of such society, and an estimate of the clear net profit or loss up to that period, which abstract, statement, and estimate shall be in such forms, and shall contain such particulars connected with the accounts and transactions of such society,

as the barrister appointed to certify the rules of saving banks shall from time to time direct; and a copy of such abstract, statement, and estimate, duly certified to be correct by the secretary, treasurer, and at least one trustee, shall, during the month of *January* in each year, be delivered or sent to the said barrister, and shall be laid by him before both Houses of Parliament; and every society which shall refuse or neglect to deliver such account as aforesaid shall be liable to a penalty of fifty pounds, to be recovered, at the suit of the said barrister, against the trustees of the society, in any of Her Majesty's Superior Courts of Record: provided always, that the trustees shall not be liable, in their persons or goods, to the consequences of any judgment obtained against them in any such suit, but the same shall avail and be enforced only against the stock and goods of the society in their hands or within their control.

SCHEDULE E.

Number of scheme.	Amount of weekly instalment.	Day on or after which the first instalment is payable, reckoning the day after the loan as the first.	Sum which may be taken by way of interest at the time of advancing the loan.
1	Two shilings per five pounds	Eleventh	Six shillings per five pounds.
2	Six pence per pound	Sixteenth	Twelve pence per pound.
3	Eight pence per pound	Twenty-first	Ten pence per pound.
4	Four shillings per five pounds	Thirty-eighth	Four shillings per five pounds.
5	Ten pence per pound	Twenty-first	Eight pence per pound.
6	One shilling per pound	Thirty-fifth	Eight pence per pound.
7	Two shillings per pound	Seventieth	Eight pence per pound.
8	Two shillings and six pence per pound ...	Seventy-seventh	Eight pence per pound.
9	Four shillings per pound	Sixty-second	Six pence per pound.
10	Five shillings per pound	Sixty-sixth	Six pence per pound.
11	Ten shillings per pound	Seventy-third	Six pence per pound.
12	Twenty shillings per pound	Seventy-sixth	Six pence per ponnd.

In these schemes all instalments after the first are to be paid weekly.

Other schemes may be formed from these by advancing or postponing the day of payment of the first instalment, provided that the first payment is not made sooner than the eleventh day, and that not more than one penny per pound is added to the interest for every thirteen days of such postponement, or that not less than one penny per pound is taken off the interest for every thirteen days of such advance.

Thus: scheme 6 may be altered by making the first instalment payable on the twenty-second day after the loan, and taking seven pence per pound for interest, and so of the rest.

AN ACT TO CONSOLIDATE AND AMEND THE LAWS FOR THE REGULATION OF CHARITABLE * LOAN SOCIETIES IN IRELAND, 1843.

[6 & 7 Vict., Ch. 91].

II. And be it enacted, that for the general control and superintendence of all charitable loan societies and charitable pawn or deposit offices established or to be established in *Ireland* under the authority of the said recited Acts or this Act there shall be a board in *Dublin*, to be denominated "The loan fund board," which board shall consist of such persons as at present constitute the loan fund board established under the authority of the said recited Act of the sixth and seventh years of his late Majesty King *William* the *Fourth*, and of such other person as shall, from time to time, be appointed a member of the said board by the Lord Lieutenant of *Ireland;* and at any meeting of the said board, duly convened, three members shall be competent to do and execute all acts which the said board are hereby enabled to do and execute.

III. (The Lord Lieutenant may remove members and appoint and remove the secretary, inspectors and staff).

IV. (The board shall superintend all loan, pawn, &c., societies established under the Act, especially with the view of ascertaining the legality and propriety of the rules, the due observance of the same and the due application of the funds, and may provide the necessary expenses for inspectors, clerks, &c., necessary for such superintendence, subject to a limit to be prescribed by the treasury).

VI. (Funds to be deposited in the Bank of Ireland, and only to be withdrawn by drafts signed by at least three members of the board and countersigned by the secretary at the regular meetings of the board).

VII. (The board must annually report to Parliament, with accounts showing its funds, the sources and modes of expenditure thereof, the balance, and the amount of loans outstanding).

IX. And be it enacted, that it shall and may be lawful to and for any number of persons in *Ireland*, subject to the restrictions and regulations herein-after provided, to form themselves into a society in

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* The word "Charitable" is somewhat misleading, as the loans, though at low interest, are on a business footing. Probably the word "Beneficial" would be more suitable, as they were intended to combat the money lender and to assist the poor to provide themselves with tools, seed, cattle, &c.

One chief peculiarity of this Act is that it places all loan societies formed under the Act, under the general control and superintendence of a board established for the purpose, the members of which are to be appointed by the Lord Lieutenant.

Ireland in any district or place in which it shall be proved to the satisfaction of the said loan fund board that such society is required, and such society shall and may raise from time to time by loans from the members of such society, or from other persons, at a rate of interest not exceeding five pounds *per centum per annum*, or by donations, a stock or fund for the purpose of granting loans to the industrious classes resident therein, and receiving repayment of the same by instalments, with interest as herein-after provided; and it shall be in like manner lawful for any number of persons in *Ireland*, subject to the restrictions and regulations herein-after provided, to form themselves into a society for the purpose of establishing or maintaining a charitable pawn or deposit office or offices in *Ireland*, at which money may be lent to the industrious classes resident therein upon pledges or deposits, at such rate of interest, not exceeding the rate of interest which now is or may be hereafter legally chargeable by pawnbrokers in *Ireland*, as the said loan fund board may from time to time appoint; and it shall and may be lawful for the members of every such society from time to time to make, subject to the restrictions hereinafter contained, rules for the better government and guidance of the same, and for defining the district, by townlands or otherwise, within which the operations of the society ought to be conducted, and for fixing the charges for application papers, instalments, cards and duplicates, and for the imposition of fines upon the several persons obtaining loans from the funds of any such society, and the officers and members thereof, offending against or violating such rules, and also from time to time to alter and amend such rules as occasion shall require, or to annul and repeal the same, and to make new rules in lieu thereof, so as such rules shall not be repugnant to the laws of this realm, nor to any of the express provisions or regulations of this Act.

X. And be it enacted, that three transcripts, fairly written or printed on paper or parchment, of all rules, or of any alteration or amendment thereof, made in pursuance of this Act, signed by at least three members of such society, shall be transmitted to the said loan fund board for their consideration; and in case the said board shall approve of any such rules, amendments, or alterations as shall be so transmitted to them as aforesaid, they shall cause the same to be submitted to such barrister as shall from time to time be appointed by the said board established under the authority of this Act (which barrister the said board is hereby authorized and required to appoint), for the purpose of ascertaining whether the said rules of such society, or such alterations or amendments thereof, as shall be so submitted to him, are in conformity to law and to the provisions of this Act.

XI. And be it enacted, that in case the said loan fund board shall disapprove of any rule made by any loan society, and submitted to them as aforesaid, or of any alteration or amendment of any such rule, such rule, or amendment or alteration thereof, shall be null and void: provided always that in every such case it shall be lawful for such society, or for the persons desiring to form any such intended society, within one calendar month after notice shall be given to them of such decision of the said board as aforesaid, to appeal against such decision to the Lord Lieutenant of *Ireland* and Her Majesty's Privy Council there, who shall have power and authority on such appeal to approve or disapprove of such rule, or amendment or alteration thereof; and if they shall disapprove thereof, then and in such case the same shall be null and void to all intents and purposes; but if they shall approve thereof, then and in such case the said loan fund board shall submit the same to such barrister as aforesaid, for the purpose aforesaid, in like manner as herein-before directed in the case of rules approved of by such loan fund board.

XII to XIV. (The barrister is to advise upon the rules and to certify as to their conformity or otherwise with the law; he is entitled to a fee of one guinea, but not oftener than once in three years on the same set of rules. Then so certified, and approved by the board, the rules shall be re-transmitted to the loan, &c., society with the countersignature of the secretary to the board, and with a certificate from the board to the effect that the rules are legal and have been approved by the board; the rules shall take effect from the date of such certificate).

XVIII. (All funds and property of any loan, &c., society must be vested in trustee or trustees).

XX. And be it enacted, that it shall not be lawful for any person, being a trustee, treasurer, honorary secretary, director, member of the managing committee of any such society, or having any control in the direction or management thereof, to receive, directly or indirectly, any salary or other remuneration for attendance or any other services performed for such society; and no salaried clerk or other paid officer or servant of such society shall be a member of its committee of management, or in anywise act or vote in the direction of its affairs.

XXI. (Treasurers and any others entrusted with the money of any loan, &c., society, and other officers and servants when necessary, shall give security when required by the loan fund board: the bonds to be made out to the secretary of such board).

XXIV. And be it enacted, that it shall not be lawful to and for any such society to make any loan on personal security to any one individual at any one time exceeding in amount the sum of ten pounds; and that no second or other loan shall be made to the same individual, or to any person on his behalf or for his use, until the previous loan shall have been repaid.

XXV. And be it enacted, that every note or security to be taken by any loan society established under the provisions of this Act for the repayment of any loan granted by any such society shall be in the form number 2, in schedule (A) hereunto annexed, or to the like effect, and blank forms for such note shall be supplied by the said loan fund board as herein-after provided; and that no proceedings shall be had or order made for the recovery of any loan fines or interest under this Act, save and except where the note or security for such loan shall be in the form and on the paper supplied by the said board.

XXVI. And be it enacted, that no note or security for the repayment of any loan made by any society established or acting under the provisions of this Act, nor any receipt or entry in any book of receipt for money lent or paid, nor any debenture or transfer, or draft or order, nor any appointment of any agent, nor any bond nor security, nor other instrument or document whatever, required or authorized to be given, issued, made, or provided in pursuance of the rules of any such society or of this Act shall be subject to or chargeable with any stamp duty whatsoever.

XXVII and XXVIII. (Rate of interest not to exceed 4½ per cent. (4*d.* in the pound for 20 weeks), taken in advance ; the principal to be receivable by instalments. Part of the funds by special order of the loan fund board may be issued in small loans at 7½ per cent. (1½*d.* per pound per month).)

XXX. (Similar to section XVI of the English Act of 1840 (*see supra*), but without the provision as to the landlord's rights.)

XXXII. (Distrained goods may be sold by the bailiff free of auction duty).

XXXV. And be it enacted, that it shall and may be lawful for every such society established or acting under this Act, which shall be desirous of raising funds for the purposes of such society or of increasing the funds of such society, to issue debentures in a form and on paper or parchment to be supplied by the said loan fund board, and the debentures issued under former Acts, or which may be issued under this Act, shall be transferable in the manner hereinafter mentioned, and not otherwise; (that is to say,) by endorsement upon the said debenture, to be executed by the person or persons entitled to the sum thereby secured, in the presence of two credible subscribing witnesses at the office of such loan society, and to be registered in the books of the loan society by whom such debenture shall be payable ; and after such endorsement shall have been so executed and registered as aforesaid, but not before, the person or persons to whom such transfer shall be made shall thereupon stand possessed of, and be entitled to, the amount of such debenture, and of all interest, benefit, claims, and demands whatsoever due or to grow due thereon as fully as if he or they had been the party who had originally advanced the sum secured by the said debenture; and every transfer of such debenture shall be in the form number 4, in schedule (A) to this act annexed, or to the like effect; and after the thirty-first day of December after the passing of this Act, no debenture shall be issued for a less sum than twenty pounds, unless it be in lieu of one previously issued.

XXXVI and XXXVII are the same as sections X and XI in the English Act of 1840.

XXXVIII. (The business of a loan society not to be carried on at any hotel, tavern, &c.)

XXXIX. (The books and accounts of all loan, &c., societies to be kept in such manner and form as shall be directed or approved by the loan fund board, and all books, accounts, vouchers, documents, &c., are to be produced, for inspection and examination by the board's inspectors, whenever required; a penalty is prescribed for failure to produce.)

XL. (Abstracts of the accounts, showing assets and liabilities, profit and loss, to be sent by each loan, &c., society annually to the loan fund board.)

XLI. (A loan, &c., society intending to dissolve must give three months' notice of their intention to the loan fund board.)

XLII. It shall not be lawful for any treasurer, trustee, member of the managing committee, or other officer exercising control in the direction or management of the affairs of any loan society, unless upon the special leave of the said loan fund board, voluntarily to resign or withdraw from such office or trust, without having given at least three calendar months' notice in writing of his intention in that behalf to such loan society, and also to the said loan fund board ; and that a copy of such notice be posted in a conspicuous part of the office of such loan society.

XLIV. And be it enacted, that it shall and may be lawful for every such loan society as aforesaid, or for such person or persons as shall have been duly authorized in that behalf by the rules of such society, and they are hereby required, annually to reserve a sum, not less than one-tenth of their clear net profits over and above all losses, to form a fund for the security of the debenture holders, and, subject thereto, it shall be lawful for them to appropriate from time to time such portion of the residue thereof as they shall think proper to the support of any dispensary, hospital, or infirmary in the district or county in which such society shall be established, or for such other charitable or useful local purpose as they, with the approbation of the said loan fund board, shall think fit; and as well the said reserved fund, as the residue or the whole of such net profits if no part shall be so appropriated, shall be employed as part of the funds of such society, until such society, with the approbation of the said loan fund board, shall otherwise determine; provided that no part of such net profits as aforesaid shall be appropriated in any way for the advantage or benefit of any member of the society, or of the persons managing or conducting the same,* or for any purpose whatsoever, except as herein-before provided; and provided also, that in case any such society shall have been dissolved, or otherwise deprived of the benefit of this Act, the whole of the clear net profits not previously appropriated, after payment of all debts of or claims on such society, shall be appropriated to such dispensary, hospital, or infirmary, or to such other charitable or useful local purpose as the said loan fund board shall think proper.

XLV. And be it enacted, that in case it shall appear to the said loan fund board, after due investigation, that any such loan society as aforesaid has not adhered to its rules, or has applied any of its profits or funds, or done any matter or thing, contrary to the provisions of this Act, it shall be lawful for the said loan fund board to withdraw from such loan society the certificate † so issued to them as aforesaid, and to order and direct that such society shall discontinue its operations, and shall be dissolved. (The order is to be gazetted and to take effect six months later, when the whole assets of the society shall vest in the loan fund board which shall appoint a receiver for winding up affairs. An appeal against the order lies to the Lord Lieutenant within one month from the date of the original order of the board).

XLVI. (Forms of debentures, &c., to be printed by the loan fund board for distribution to the several societies.

XLVII to LII (Refer to the "Irish Reproductive Loan Fund Institution" (established in London) and the societies affilitated to it in Ireland: these were formed "for the purpose of making

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* This provision is noticeable : *see* section XX *supra*, and compare the similar provisions in the Trustee Savings Banks Act.

† *See* sections XII and XIV *supra*.

charitable * loans of money, or for providing, by way of loan, implements of labour, seeds, or raw materials for manufacture of goods to be used or employed in any trade." These are exempt from the control of the loan fund board, but are granted the privileges of the Act.)

LIII. (Societies not certified under this Act prohibited from using its provisions and privileges.)

LIII. (All "Monts de Piété or charitable, pawn or deposit offices at which money may be lent to the industrious poor upon pledge in Ireland, shall be deemed loan societies within the meaning of this Act" and shall be brought under its rules.)

LV to LVIII. (Provide for the recovery of any penalty by conviction at petty sessions, and through a warrant of distress to be issued by the Justices; "and no justice of the peace who shall be a trustee or other unpaid officer or member of any loan society shall be thereby precluded from adjudicating in the matter of any loan sued for, by or on behalf of, such society, or of any penalty or forfeiture incurred under this Act, or from acting as such justice of the peace in any other proceeding whatsoever under this Act.")

APPENDIX No. 3.

Form of debenture or security for the payment of the money lent to a loan society.

This is to certify, that *A.B.*, of , has this day deposited with *C.D.*, the treasurer of the loan society, the sum of £ to be repaid out of the funds of the said society to the said *A.B.*, his executors, administrators, or assigns, at the expiration of calendar months after a demand thereof in writing shall have been made upon the treasurer of the said society, and to bear interest until repaid at the rate of per centum per annum, to be paid half-yearly [*or otherwise, as agreed upon*]; and it is hereby declared, that the said principal sum and interest shall be a charge upon and payable out of the funds and property of the said society, and such funds and property only; and that the treasurer and other officers and members of the said society, or any of them, shall not severally or collectively be responsible for the payment thereof from or out of any other funds whatsoever. Dated this of 18 .

(Signed) _____ Trustee.
_____ Treasurer.
Entered, _____ Clerk.

No. 4.

Form of transfer of debenture to be endorsed thereon.

I , the within-named depositor [*or* "the assignee of the within debenture"], do hereby transfer this debenture, with all interest due and to accrue due in respect thereof unto of Witness my hand, this day of 18 .

[*Signature of person making the transfer.*]

Executed in the presence of of and of

N.B.—The transfer is not valid unless it shall have been executed at the office, and registered in the books of the society by which the debenture was issued.

THE BANKING LAWS OF THE STATE OF NEW YORK.

ARTICLE V.—BUILDING AND MUTUAL LOAN CORPORATIONS.

SEC.
170. Incorporation.
171. Powers.
172. Stock for minors.
173. Dividends and monthly payments.
174. Liability of stockholders and directors; exemption.
175. Existing corporations.

SEC. 170. *Incorporation.*—Nine or more persons may become a corporation for the purpose of accumulating a fund for the purchase of real property, the erection of buildings, or the making of other improvements on lands, or to pay off incumbrances thereon, or to aid its members in acquiring real property, making improvements thereon, and removing incumbrances therefrom, and for accumulating a fund to be returned to its members, who do not obtain such advances, when its funds shall amount to a certain sum per share, to be specified in the certificate of incorporation, or for all or any of such purposes; by making, acknowledging and filing a certificate of incorporation, setting forth—

(i) the name of the corporation;
(ii) the location of its principal business office;
(iii) when its regular meetings shall be held and how special meetings may be called;
(iv) what shall be a quorum to transact business at its meetings;
(v) how members shall be admitted and their qualifications;
(vi) what officers, directors or attorneys of the corporation there shall be and how and when chosen;
(vii) the duties of such officers, directors or attorneys and how removed or suspended from office;
(viii) the names of the persons who shall be such officers and directors for its first year, and until others are chosen or appointed in their places;

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* *See* note to preamble to this Act.

(ix) the entrance fee of new members and new shares;
(x) the amount of each share;
(xi) the monthly or weekly dues per share;
(xii) the redemption fee on shares on which advances shall be made;
(xiii) the fees to be paid on the transfer of shares;
(xiv) the penalties for non-payment of dues or fees, or other violation of the provisions of the certificate;
(xv) the manner of redemption of shares by advances made thereon;
(xvi) the mortgage security to be taken on such advances and how the same may be changed;
(xvii) the manner of the transfer or withdrawal of shares;
(xviii) the manner of investing funds not required for advances on shares;
(xix) the qualification of voters at its meetings and the mode of voting;
(xx) the ultimate amount to be paid to the owners of unredeemed shares;
(xxi) the manner of altering or amending the certificate of incorporation;
(xxii) such other provisions not inconsistent with law as shall be necessary for the convenient and effective transaction of its business;

Such certificate must be approved by the superintendent of banks and filed in the office of the clerk of the county in which such corporation shall have its principal business office, and a certified copy thereof shall be filed in the office of the superintendent of banks. Thereupon the persons who have subscribed such certificate and such other persons as shall become members of the corporation, and their successors shall be a corporation by the name specified in such certificate.

SEC. 171. *Powers.*—The directors of every such corporation may call in and demand from the members and stockholders thereof, all sums of money by them subscribed, at such times and in such payments or instalments as the certificate of incorporation shall prescribe, under the penalty of forfeiting the shares of stock subscribed for and all previous payments made thereon, if payment shall not be made by the member or stockholder within sixty days after a personal demand made or notice requiring such payment shall have been published for six successive weeks in the newspaper nearest to the principal place of business of the corporation.

Every such corporation shall have power to borrow money for temporary purposes not inconsistent with the objects of its organization, but no such loan shall have a longer duration than two years, nor shall its indebtedness for money so borrowed exceed at any one time one-fourth of the aggregate amount of its shares and parts of shares and the income thereof actually paid in and received.

No loan made by any such corporation to any of its members or stockholders shall exceed in amount the par value of the capital stock for which such member or stockholder may have subscribed.

SEC. 172. *Stock for minors.*—Parents and guardians may take and hold shares in such corporation in behalf and for the use of their minor children or wards, if the cost of such shares be defrayed from the personal earnings of such minor children or wards, or by gifts from persons other than their parents.

SEC. 173. *Dividends and monthly payments.*—Dividend sdeclared from the earnings of the corporation shall be payable in such manner as may be provided in the certificate of incorporation.

No holder of redeemed shares shall claim to be exempt from making the monthly or other stated payments provided in the certificate of incorporation on the ground that by reason of losses or otherwise, the corporation has continued longer than was originally anticipated, whereby the payments made on such shares may amount to more than the amount originally advanced, with legal interest thereon: nor shall the imposition of fines for non-payment of dues or fees or other violation of the certificate of incorporation, nor the making of any monthly payment required by the certificate of incorporation, or of any premiums for loans made to members be deemed a violation of the provisions of any statute against usury.

SEC. 174. *Liability of stockholders and directors; exemption.*—All the shareholders of any such corporation shall be individually liable to the creditors to an amount equal to the amount of stock held by them respectively for all debts contracted by it. The directors or other officers of every such corporation shall be personally liable for any fraudulent use, disposition or investment of any moneys or property belonging to it, or for any loss which shall be incurred by any investment made by any such directors or officers, other than such as are mentioned in and authorized by this article; but no director or other officer shall be so liable unless he authorized, sanctioned, approved of or made such fraudulent use, disposition or investment.

The shares held by the members and stockholders of every such corporation shall be exempt from sale on execution for debt to an extent not exceeding six hundred dollars in such shares at their par value.

SEC. 175. *Existing corporations.*—Any existing corporation formed solely for the purposes mentioned in this article, or any of them, may, by a vote of the persons holding a majority of the voting shares of stock of such corporation at any regular meeting after this article shall take effect, become entitled to the benefit of this article on complying with section 170 of this chapter, or such portions thereof as have not been previously complied with.

ARTICLE VI.—CO-OPERATIVE LOAN ASSOCIATIONS.

SEC.
180. Incorporation.
181. Officers and by-laws.
182. Capital stock; voting.
183. Dues, fines and entrance fees.
184. Withdrawal of shares.
185. Payment of matured shares.
186. Borrowing by members.
187. Security; rights of borrower.
188. Forfeiture for non-payment of dues.
189. Purchase of real property; loans.
190. Profits and losses.
191. Qualification of members; transfer and exemption of shares.

SEC. 180. *Incorporation.*—Fifteen or more persons may become a corporation for the purpose of encouraging industry, frugality, home building and savings among its members, the accumulation of

savings, the loaning of such savings to its members, and the repayment to each member of his savings when they have accumulated to a certain sum, or at any time when he shall desire the same, or the corporation shall desire to repay the same, or for any or all of such purposes, by making, acknowledging and filing a certificate stating the name of the corporation, which shall contain as a part thereof the words "co-operative savings and loan association," the purpose or purposes for which it is formed, the town, city or village where its principal place of business is located within this State and the minimum number of shares of stock it shall have outstanding at any one time.

Such certificate must be approved by the superintendent of banks and filed and recorded in his office, and a certified copy thereof filed in the office of the clerk of the county where its principal business office is to be located, and upon the filing of such certificate and the certified copy thereof, the persons named therein, their associates and successors, shall become and be a corporation by the name specified therein.

SEC. 181. *Officers and by-laws.*—The officers of the corporation shall be a president, vice-president, treasurer and secretary, who shall be ex-officio members, of the board of directors, which shall consist of nine members exclusive of such ex-officio members, and such other officers as may be authorized by the by-laws. By-laws shall be adopted prescribing the terms of office, duties and compensation of the officers, the time of their election and of periodical meetings of the officers and shareholders, how special meetings may be called, regulating the due conduct of the business of the corporation, defining the duties of its officers and committees, the mode of determining and declaring the withdrawing value of shares, and making such other regulations in regard to the transaction of the business of the corporation as are not inconsistent with law. The board of directors shall each year determine the compensation of the treasurer and secretary, and they may appoint and remove at pleasure an attorney for the corporation.

SEC. 182. *Capital stock; voting.*—The capital of every such corporation shall consist of the accumulated savings of its members, which it holds, and shall not exceed at any time one million dollars; and shall be divided into shares of the matured value of two hundred dollars each.

The total number of shares outstanding at any time shall not exceed ten thousand. The shares shall be issued in yearly or half-yearly series in such amounts in each series and at such times as shall be prescribed by the by-laws. No shares of a prior series shall be issued after the issuing of shares in a new series. Shares which have not been pledged as a collateral security for the repayment of a loan shall be called unpledged shares. Shares which have been so pledged shall be called pledged shares. No person shall hold more than ten unpledged or twenty pledged shares in any one series. Each shareholder shall be entitled to one vote at all meetings of the shareholders for each share owned by him or held by him as trustee, not in arrears for dues.

SEC. 183. *Dues, fines and entrance fees.*—Savings paid to the corporation upon shares shall be called dues. At or before each stated monthly or semi-monthly meeting of the board of directors, each shareholder shall pay to the board or a committee thereof, one dollar dues upon each share of stock held by him until the share reaches the value of two hundred dollars, or is withdrawn, cancelled or forfeited. Payment of dues on shares of each series shall commence from its issue. Fines may be imposed and collected, not exceeding 10 per cent. for each month in arrears, for every dollar of dues or interest which a shareholder shall refuse or neglect to pay at the time it is due. An entrance fee may also be charged not exceeding twenty-five cents on every share of stock issued by the corporation.

SEC. 184. *Withdrawal of shares.*—The accumulations upon unpledged shares may be withdrawn, and the shares cancelled, after one month's written notice of such intention filed with the secretary at or before a stated monthly meeting of the board. If filed before such meeting, the one month's notice shall not be deemed to have commenced until the first regular meeting after filing. The withdrawing shareholder shall be paid the amount of the withdrawal value of his accumulations as determined under the by-laws at the last distribution of profits before the notice of withdrawal, together with all dues paid since such distribution, and such interest on the value of the shares at the time of the last distribution and on the dues thereafter paid as the by-laws shall determine, less any fines unpaid and a proportionate share of any unadjusted loss; but not more than one-half of the receipts of the corporation, and when the corporation is indebted on matured shares, not more than one-third of such receipts, shall be applicable to the payment of withdrawing shareholders without the consent of the board of directors. When the demands of withdrawing shareholders exceed the moneys applicable to their payment, they shall be paid in the order in which their notices of withdrawal were filed with the secretary. The board of directors may in their discretion, under rules made by them, retire the unpledged shares of any series at any time after four years from the date of their issue by enforcing withdrawals of the same; but the shareholders whose shares are to be retired shall be determined by lot, and they shall be paid the full value of their shares, less all fines and proportionate part of any unadjusted loss.

SEC. 185. *Payment of matured shares.*—When each unpledged share of a given series reaches the value of two hundred dollars, all payment of dues thereon shall cease, and the holder thereof shall be paid out of the funds of the corporation, two hundred dollars therefor, with such rate of interest as shall be determined by the by-laws from the time the board of directors shall have declared such shares to be matured until paid; but at no time shall more than one-third of the receipts of the corporation be applicable to the payment of matured shares without the consent of the board of directors. The order of the payment of matured shares shall be determined by the board of directors.

SEC. 186. *Borrowing by members.*—At each monthly stated meeting, immediately following the receipt of dues and interest, the board of directors shall offer to members of the corporation desiring to borrow, all accumulations applicable to that purpose, in sums of two hundred dollars, the value of a matured share, or a multiple thereof, or the fractional parts of one-fourth or one-half thereof. If more than one member desires to borrow, the right to the loan shall be determined by an open bidding of a premium per share, and the member bidding the highest premium shall be entitled to the loan upon giving proper security; and the amount of the premium paid shall be deducted from the sum loaned at the time of loaning, and the receipt thereof shall not be deemed a violation of the usury laws. No

member can borrow a larger sum than shall be equal to the matured value of the shares held by him. A borrowing member, for each share or fractional part thereof borrowed upon, shall, in addition to the dues on his shares, pay monthly interest on his loan at the rate of six per cent. per annum, or such lower rate as the by-laws shall name, until the shares borrowed upon reach the matured value of two hundred dollars each, or the loan is repaid; and when such matured value is reached, the loan upon it shall be paid out of the share, and the proper surrender and acquittances be made.

SEC. 187. *Security; rights of borrower.*—Every loan made shall be secured by a bond and a first mortgage upon unincumbered real property, with a transfer and pledge to the corporation of the shares borrowed upon, and all accumulations that have or shall accrue thereon; but in lieu of the mortgage the borrower, or another, may transfer and pledge to the corporation for the payment of the loan, unpledged shares, the withdrawal value of which, under the by-laws, at the time of such borrowing, shall exceed the amount borrowed and interest thereon for six months. The right to the loan shall be forfeited if the borrower neglects to offer security satisfactory to the board of directors within the time provided by the by-laws, and he shall be charged with one month's interest and all necessary expenses incurred, if any, under the by-laws, in reference to his proposed loan. All bonds and mortgages given to the corporation shall be deemed conditioned upon the performance of the provisions of this chapter relating to the repayment of loans and interest thereon, and the by-laws of the corporation, although not fully expressed therein. A borrower may repay the loan and all arrears of interest and fines thereon, or one share thereof, at any stated monthly meeting, or at any other time, but when not made at a stated meeting he shall pay interest up to the first monthly meeting after such payment. He may repay his loan in full and release the shares from liability upon the pledge thereof, or he may, by a proper notice and direction as to the application, have the withdrawal value of the shares borrowed upon applied in payment or part payment of his loan.

SEC. 188. *Forfeiture for non-payment of dues.*—When any member shall be six months in arrears in the payment of dues upon unpledged shares, the secretary shall give him notice thereof in writing, and a statement of his arrearages by mailing the same to him at the last post-office address given by him to the corporation, and if he shall not pay the same on or before the second stated monthly meeting thereafter, the board of directors may, at their discretion, declare his shares forfeited; and at the time of such forfeiture, the withdrawal value thereof shall be determined and stated, and the defaulting member shall be entitled to withdraw the same without interest within one year, upon such notice as shall be required of a withdrawing shareholder. If a borrowing member shall be six months in arrears in the payment of his dues and interest, or either, the whole loan shall become due at the option of the board of directors, and they may proceed to enforce the collection upon the securities held by the corporation. The withdrawal value at the time of the commencement of the action of all shares pledged as collateral security for the loan shall be applied upon the loan and arrearages of interest and fines thereon, and the shares deemed surrendered to the corporation.

SEC. 189. *Purchase of real property; loans.*—Any such corporation may purchase at any sale, public or private, any real property upon which it may have a mortgage, judgment, lien or any other incumbrance, or in which it may have any interest, and may sell, convey, lease or mortgage the same at pleasure to any person or persons. It may also borrow money, but not for a longer period than one year, for the purpose of making loans or paying withdrawals, not exceeding two thousand dollars, when its accumulated capital is less than ten thousand dollars; and not exceeding six thousand dollars when its accumulated capital shall be ten thousand dollars and over, and not more than sixty thousand dollars; and if its accumulated capital exceeds sixty thousand dollars, it may borrow money for such purposes not exceeding ten per cent. of its accumulated capital.

If any such corporation has a surplus in its treasury for which there is no demand for loans, withdrawing shareholders or matured stock, it may loan the same to any other corporation organized under the provisions of this article, subject to the provisions of this section on the part of the borrowing corporation. No corporation shall borrow or make loans authorized by this section except by a two-thirds vote of its board of directors, which shall be recorded by ayes and nays in its regular minutes.

SEC. 190. *Profits and losses.*—Profits and losses shall be distributed at least annually and always before issuing a new series of stock to all shares in all series outstanding at the time of such distribution, in proportion to their holding value as distinguished from their withdrawing value, except that, in addition thereto, a distribution of not exceeding the amount of the entrance fee, in the discretion of the board of directors, may be made to each share outstanding in the last series issued prior to the distribution. At each periodical distribution of profits, the board of directors may reserve and carry as undistributed profits, in the nature of a guaranty fund, any sum from the net profits that in their discretion seems wise, to be applied upon any future losses that may occur from any cause whatever.

SEC. 191. *Qualification of members; transfer and exemption of shares.*—Any person of full age and sound mind may become a member of the corporation by taking one or more shares therein and subscribing the by-laws, and annexing to his signature his post-office address; and when he desires his post-office address changed, he shall give written notice thereof to the secretary of the corporation; and for the purpose of giving any member notice by mail, the last post-office address given by him shall be deemed the proper one. A minor may hold shares in the name of a parent, guardian or next friend as trustee for him. No transfer of shares shall be binding upon the corporation until the same has been made upon its books; and the transferee thereof shall take the same charged with all the liabilities and conditions attaching thereto in the hands of the person transferring the same; and the corporation may require a transfer fee not exceeding twenty-five cents per share.

All accumulations upon shares held by any person shall be exempt from execution and proceedings supplementary thereto to the amount of six hundred dollars; and the corporation shall be deemed an institution for savings and not taxable under any corporation tax law, which shall exempt savings banks or institutions for savings from taxation; and no such corporation shall be liable to pay any tax upon its organization or as a condition thereof.

BANKING LAWS OF MASSACHUSETTS.

The following is the law of this State, as reported by the Commissioners of Savings Banks December 31, 1887:—

SEC. 1. Twenty-five or more persons who associate themselves together by an agreement in writing, with the intention of forming a corporation for the purpose of accumulating the savings of its members paid into such corporation in fixed periodical instalments, and lending to its members the funds so accumulated, shall be and remain a corporation upon complying with the provisions of the three following sections.

SEC. 2. The agreement shall set forth the fact that the subscribers thereto associated themselves with the intention of forming a corporation; the name by which the corporation shall be known; the purpose for which it is formed; the town or city, which shall be within this Commonwealth, in which it is located; and the limit of the capital to be accumulated.

SEC. 3. The name shall be one not previously in use by any existing corporation established under the laws of this Commonwealth, and shall be changed only by Act of the General Court. The words "co-operative savings fund and loan association" shall form a part of the name.

Section three of chapter one hundred and seventeen of the Public Statutes, relative to the name of co-operative savings fund and loan associations, is hereby amended by striking out the words "co-operative savings fund and loan associations," in the fourth line, and inserting in place thereof the words "co-operative bank."

The title of said chapter one hundred and seventeen of the Public Statutes is hereby amended by striking out the words "savings-fund and loan associations," and inserting in place thereof the word 'banks.'

The names of all co-operative savings-fund and loan associations heretofore organized are hereby changed by striking out in each the words "savings-fund and loan association," and inserting in place thereof the word 'bank'; and they shall hereafter be known as 'co-operative banks.'

The first and second sections of this Act shall take effect upon its passage, and the third section upon the first day of July, in the year eighteen hundred and eighty-three.

SEC. 4. The provisions of sections eighteen, twenty, and twenty-one of chapter one hundred and six shall apply to such corporations, except that, in the certificate signed by the Secretary of the Common wealth, the limit of capital to be accumulated, as fixed in the agreement of association, shall be inserted, instead of the amount of the capital, that the certificate required by said section twenty-one to be filed and recorded may be signed and sworn to by the presiding and financial officers, and a majority at least of the officers possessing the powers of directors by whatever name they may be called, and that the fees to be paid for filing and recording the certificates required by said section twenty-one, including the issuing of the certificate of organization, shall be five dollars.

SEC. 5. The capital to be accumulated shall not exceed one million dollars, and shall be divided into shares of the ultimate value of two hundred dollars each. The limitation of capital to be accumulated in any co-operative bank now organized or hereafter formed under the provisions of chapter one hundred and seventeen of the Public Statutes shall be held to apply to capital actually paid in, and no such bank shall be restrained from issuing shares so long as the capital actually paid in on shares is not in excess of one million dollars. The shares may be issued in quarterly, half-yearly, or yearly series, in such amounts and at such times as the members may determine. No person shall hold more than twenty-five shares in the capital of any one such corporation. No shares of a prior series shall be issued after the issue of a new series.

SEC. 6. The number, title, duties, and compensation of the officers of the corporation, their terms of office, the time of their election, as well as the qualifications of electors and the time of each periodical meeting of the officers and members, shall be determined by the by-laws; but no member shall be entitled to more than one vote at any election. All officers shall continue in office until their successors are duly elected, and no corporation shall expire from neglect on its part to elect officers at the time prescribed by the by-laws.

In any co-operative bank now or hereafter formed under the provisions of chapter one hundred and seventeen of the Public Statutes, the offices of secretary and treasurer may be held by one and the same person.

SEC. 7. The officers shall hold stated monthly meetings. At or before each of these meetings every member shall pay to the corporation, as a contribution to its capital, one dollar as dues upon each share held by him until the share reaches the ultimate value of two hundred dollars or is withdrawn, cancelled or forfeited. Payment of dues on each series shall commence from its issue.

SEC. 8. A member may withdraw his unpledged shares at any time by giving thirty days' notice of his intention so to do, written in a book held and provided by the corporation for that purpose. Upon such withdrawal the shareholder's account shall be settled as follows:—from the amount then standing to the credit of the shares to be withdrawn there shall be deducted all fines, a proportionate part of any unadjusted loss, together with such proportion of the profits previously credited to the shares as the by-laws may provide, and such shareholders shall be paid the balance: *Provided*, that at no time shall more than one-half of the funds in the treasury be applicable to the demands of withdrawing members without the consent of the directors. The directors may at their discretion, under rules made by them, retire the unpledged shares of any series at any time after four years from the date of their issue by enforcing the withdrawal of the same; but whenever there shall remain in any series, at the expiration of five years after the date of its issue, an excess above one hundred unpledged shares, then it shall be the duty of the directors to retire annually twenty-five per centum of such excess existing at said expiration of five years after the date of its issue, so that not more than one hundred unpledged shares shall remain in such series at the expiration of nine years from the date of its issue, and thereafter the directors may in their discretion retire such other unpledged shares as they consider the best interests of the bank to require: *Provided*, that whenever under the provisions of this section the withdrawal of shares is to be enforced the shares to be retired shall be determined by lot, and the

holders thereof shall be paid the full value of their shares, less all fines and a proportionate part of any unadjusted loss: *Provided, also*, that share pledged for share loans shall be treated as unpledged shares.

Shares may be issued in the name of a minor, and if so issued may, at the discretion of the directors, be withdrawn, in manner as provided in section two of this Act, by such minor, the parent or guardian of such minor, and in either case the payments made on such withdrawals of shares shall be valid. When a share or shares are held by any one in trust for another, the name and residence of the person for whom such share or shares are held shall be disclosed, and the account shall be kept in the name of such holder as trustee for such person; and, if no other notice of the existence and terms of such trust has been given in writing to the corporation, in the event of the death of the trustee, such shares may be withdrawn by the person for whom such deposit was made or by his legal representatives.

SEC. 9. When each unpledged share of a given series reaches the value of two hundred dollars, all payments of dues thereon shall cease, and the holder thereof shall be paid out of the funds of the corporation two hundred dollars thereof with interest at the rate of six per cent. a year from the time of such maturity to the time of such payment: *Provided*, that at no time shall more than one-half of the funds in the treasury be applicable to the payment of such matured shares without the consent of the directors: *Provided, further*, that when any series of shares, either pledged or unpledged, reaches maturity between the dates of adjustment of profits or whenever shares are retired between such dates, the holders of such shares shall, in addition to the value thereof, be entitled to interest at the rate of six per cent. per annum for all full months from the date of the preceding adjustment.

Chapter one hundred and seventeen of the Public Statutes is amended as follows by adding to section nine the following words:—"And that before paying matured shares all arrears and fines shall be deducted."

SEC. 10. The moneys accumulated, after due allowance made for all necessary and proper expenses and for the withdrawal of shares, shall at each stated monthly meeting be offered to the members according to the premiums bid by them for priority of right to a loan. Every member whose bid is accepted shall be entitled, upon giving proper security, to receive a loan of two hundred dollars for each share held by him or such fractional part of two hundred dollars as the by-laws may allow. If a balance of money remains unsold after a monthly sale, the directors may invest the same in any of the securities named in the second clause of section twenty of chapter one hundred and sixteen.

SEC. 11. Premiums for loan shall consist of a percentage charged on the amount lent in addition to interest, and shall be deemed to be a consideration paid by the borrower for the present use and possession of the future or ultimate value of his shares, and shall, together with interest and fines, be received by the corporation as a profit on the capital invested in the loan, and shall be distributed to the various shares and series of said capital as hereinafter provided.

SEC. 12. A borrowing member, for each share borrowed upon, shall, in addition to his dues and monthly premium, pay monthly interest on his loan at the rate of six per cent. per annum until his shares reach the ultimate value of two hundred dollars each, or the loan has been repaid; and when said ultimate value is reached, said shares and loan shall be declared cancelled and satisfied, and the balance, if any, due upon the shares shall be paid to the member.

Any corporation organized under said chapter one hundred and seventeen may provide in its by-laws that the bid for loans at its stated monthly meeting shall, instead of a premium, be a rate of annual interest upon the sum desired, payable in monthly instalments. Such bids shall include the whole interest to be paid, and may be at any rate not less than five per centum per annum.

SEC. 13. For every loan made, a note secured by first mortgage of real estate shall be given, accompanied by a transfer and pledge of the shares of the borrower. The shares so pledged shall be held by the corporation as collateral security for the performance of the conditions of said note and mortgage. Said note and mortgage shall recite the number of shares pledged and the amount of money advanced thereon, and shall be conditioned for the payment, at the stated meetings of the corporation, of the monthly dues on said shares, and the interest and premium on the loan, together with all fines on payments in arrears until said shares reach the ultimate value of two hundred dollars each, or said loan is otherwise cancelled and discharged: *Provided*, that the shares, without other security, may, in the discretion of the directors, be pledged as security for loans, to an amount not exceeding, their value as adjusted at the last adjustment and valuation of shares before the time of the loan.

If the borrower neglects to offer security satisfactory to the directors within the time prescribed by the by-laws, his right to the loan shall be forfeited, and he shall be charged with one month's interest and one month's premium at the rate bid by him, together with all expenses, if any, incurred; and the money appropriated for such loan may be reloaned at the next or any subsequent meeting.

SEC. 14. A borrower may repay a loan at any time, upon application to the corporation, whereupon, on settlement of his account, he shall be charged with the full amount of the original loan, together with all monthly instalments of interest, premium and fines in arrears, and shall be given credit for the withdrawing value of his shares pledged and transferred as security; and the balance shall be received by the corporation in full satisfaction and discharge of said loan: *Provided*, that all settlements made at periods intervening between stated meetings of the directors shall be made as of the date of the stated meeting next succeeding such settlement; and, *Provided*, that a borrower desiring to retain his shares and membership may at his option repay his loan without claiming credit for said shares, whereupon said shares shall be retransferred to him, and shall be free from any claim by reason of said cancelled loan. Partial payment of loans on real estate made by any co-operative bank may be received in sums of fifty dollars or any multiple thereof; and for each two hundred dollars so repaid one share of stock shall be released from pledge.

SEC. 15. Members who make default in the payment of their monthly dues, interest, and premiums, shall be charged a fine not exceeding 2 per cent. a month on each dollar in arrears. No fines shall be charged after the expiration of six months from the first lapse in any such payment, nor upon a fine in arrears. The shares of a member who continues in arrears more than six months shall, at the option of the directors, if the member fails to pay the arrears within thirty days after notice, be declared forfeited, and the withdrawing value of the shares at the time of the first default shall be

ascertained, and, after deducting all fines and other legal charges, the balance remaining shall be transferred to an account to be designated the 'Forfeited Share Account,' to the credit of the defaulting member. Said member, if not a borrower, shall be entitled, upon thirty days' notice, to receive the balance so transferred without interest from the time of the transfer, in the order of his turn, out of the funds appropriated to the payment of withdrawals. All shares so forfeited or transferred shall cease to participate in any profits of the corporation accruing after the last adjustment and valuation of said shares before said first default.

SEC. 16. If a borrowing member is in arrears for dues, interest, premium or fines, for more than six months, the directors may, at their discretion, declare the shares forfeited, after one month's notice, if the arrears continue unpaid. The account of such borrowing member shall then be debited with the arrears of interest 'premium,' and fines of date of forfeiture, and the shares shall be credited upon the loan at their withdrawing value. The balance of the account may, and after six months shall, be enforced against the security, and be recovered as secured debts are recovered at law.

SEC. 17. The general accounts of every such corporation shall be kept by double entry. All moneys received by the corporation from each member shall be receipted for by persons designated by the directors, in a pass-book provided for by the corporation for the use of, and to be held by, the member; and said pass-book shall be plainly marked with the name and residence of the holder thereof, the number of shares held by him, and the number or designation of the series or issue to which said shares respectively belong, and the date of the issue of such series. All moneys so received shall be originally entered by the proper officer in a book to be called the 'cash-book,' to be provided by the corporation for the purpose, and the entries therein shall be so made as to show the name of the payer, the number of shares, the number or designation of the series or issue of the particular share or shares so entered, together with the amount of dues, interest, premiums, and fines paid thereon, as the case may be. Each payment shall be classified and entered into a column devoted to its kind. Said cash-book shall be closed after the termination of each stated meeting, and shall be an exhibit of the receipts of all moneys paid at said meeting. All payments made by the corporation for any purpose whatsoever shall be by order, check, or draft upon the treasurer, signed by the president and secretary, and endorsed by the persons in whose favour the same are drawn. The name of the payee, the amount paid, and the purpose, object, or thing for which the payment is made, together with its date, shall be entered on the margin of said order, check, or draft. The treasurer shall dispose of and secure the safe keeping of all moneys, securities, and property of the corporation, in the manner designated by the by-laws, and the treasurer and secretary shall give such security for the faithful performance of their respective duties as the by-laws may direct.

SEC. 18. The profits and losses may be distributed annually, semi-annually, or quarterly, to the shares then existing, but shall be distributed at least once in each year, and whenever a new series of shares is to be issued. Profits and losses shall be distributed to the various shares existing at the time of such distribution, in proportion to their value at that time, and shall be computed upon the basis of a single share fully paid to the date of distribution. Losses shall be apportioned immediately after their occurrence.

At each periodical distribution of profits the directors shall reserve as a guarantee fund a sum not less than one nor more than five per cent. of the net profits accruing since the next preceding adjustment, until such fund amounts to five per cent. of the dues capital, which fund shall thereafter be maintained and held; and said fund shall be at all times available to meet losses in the business of the corporation from depreciation of its securities or otherwise.

SEC. 19. Any such corporation may purchase at any sale, public or private, any real estate upon which it may have a mortgage, judgment, lien, or other incumbrance, or in which it may have an interest; and may sell, lease, convey, or mortgage, at pleasure, the real estate so purchased to any person or persons whatsoever. All real estate so acquired shall be sold within five years from the acquisition of the title thereto.

SEC. 20. The commissioners of savings banks shall perform in reference to every such corporation, the same duties, and shall have the same powers, as are required of or given to them in reference to savings banks, and shall annually make a report to the General Court of such facts and statements respecting such associations, and in such forms they deem that the public interest requires. Every officer of such corporation shall answer truly all inquiries made, and shall make all returns required by the commissioners.

AN ACT RELATING TO CO-OPERATIVE BANKS, 1889.

Every co-operative bank shall annually, within twenty days after the last business day of October, make a return to the commissioners of savings banks in such form as may be prescribed by them, showing accurately the condition thereof at close of business on said day, which return shall be signed and sworn to by the secretary and treasurer of such corporation. The president and five or more of the directors shall certify and make oath that the report is correct according to their best knowledge and belief.

LABOUR LAWS OF THE STATE OF NEW JERSEY.

CO-OPERATION.

An Act to provide for the formation and regulation of Co-operative Societies of working-men.

1. That it shall be lawful for any number of persons, not less than seven, residents in this State, to associate themselves into a society for the purpose of carrying on any lawful mechanical, mining, manufacturing or trading business, or for the purpose of trading and dealing in goods, wares and

merchandise or chattels, or for the purpose of buying, selling, settling, owning, leasing and improving real estate and erecting buildings thereon, within this State, upon making and filing a certificate of association, in writing, in manner hereinafter mentioned, and as such shall be deemed to be a corporation, and to possess all powers incident thereto.

2. That such certificate of association shall set forth—

(i) the name assumed to designate such society and to be used in its business and dealings, which name shall have the word 'co-operative' as a distinguishing part thereof, but shall in no respect be similar to that of any other society organized under this Act;

(ii) the place or places in this State where the business of such society is to be conducted, and the location of the principal office of the same;

(iii) the objects for which the society shall be formed;

(iv) the total amount of capital stock of such society, the number of shares into which the same is divided, the par value of each share, the manner in which the instalments on the shares shall be paid, the number of shares subscribed, and the amount actually paid in cash on account of the same;

(v) the terms of the admission of members;

(vi) mode of application of profits;

(vii) the mode of altering or amending the certificate of association and the by-laws of the society.

3. That the said certificate of association shall be signed by the persons originally associating themselves together, and shall be proved or acknowledged by at least seven of them before an officer qualified to make acknowledgments of deeds of real estate, and after being approved by the chief of the bureau of statistics of labour and industries, shall be recorded in the office of the clerk of the county where the principal office or place of business of such society shall be established, and a copy of such certificate shall be filed in the office of the chief of the bureau of statistics of labour and industries.

4. That the business of every such society shall be managed and conducted by a board of not less than five directors, who shall respectively be members of said society and shall be annually elected at such time and place as shall be provided in the by-laws of the society, and one of such directors shall be chosen president and one of them shall be chosen treasurer, and such directors and officers shall hold their respective offices until their successors are duly qualified; and that such society shall also have a secretary and such other officers, agents and factors as may be necessary to carry on its business, and shall choose them in the manner prescribed by the by-laws thereof.

5. That the first meeting of such society shall be called by a notice signed by a majority of the persons named in the certificate of association, and designating the time, place and purpose of the meeting, and shall be personally served on all the persons signing said certificate, or by advertisement in a newspaper published in the county where such society shall have been incorporated, if such personal service cannot be made; and at such meeting so called, or at any adjourned meeting thereof, a majority of the persons so signing shall constitute a quorum for the transaction of business, and shall have power to elect the directors and other officers provided for in section fourth (4) of this Act, who shall serve until their successors duly qualify, and to adopt by-laws, rules and regulations for the government of such society.

6. That the by-laws of such society shall provide—

(i) for an annual meeting of the members thereof, and such other regular and special meetings as may be deemed desirable, the number of members necessary to constitute a quorum for the transaction of business, and the right of voting at the same;

(ii) for the election of directors and other officers, agents and factors, and their respective powers and duties;

(iii) for the limitation of the amount of such real and personal estate as the purposes of the society shall require;

(iv) whether the shares, or any number of them, shall be transferable, and in case it be determined that the same shall be transferable, provisions for their transfer and registration, and the consent of the board of directors to the same; and in case it shall be determined that the shares shall not be transferable, provision for paying to members the balance due to them on withdrawal, or of paying nominees in cases hereinafter mentioned;

(v) how members may withdraw from the society;

(vi) whether and by what authority any part of the capital may be invested in or on security of another society through which its products are disposed of or its supplies secured;

(vii) whether and to what extent credit in its business transactions may be given or taken;

(viii) in what sum and with what sureties the treasurer and other fiduciary officers or agents shall give bonds for the faithful performance of their respective duties;

(ix) for the audit of accounts;

(x) for the distribution of the net profits;

(xi) for the custody, use and device of the seal, which shall bear the incorporated name of the society.

7. That every society incorporated under this Act shall paint or affix, and shall keep painted or affixed, its name on the outside of every office or place in which the business of the association is carried on, in a conspicuous position in letters easily legible.

8. That every society incorporated under this Act shall have a registered office to which all communications and notices may be addressed, and notices in writing of the location of such office, and of any change therein, shall be filed with the chief of the bureau of statistics of labour and industries, and in the office of the clerk of the county where the office of such society is located.

9. That the capital stock of such society shall be divided into shares, the par value of which shall not be more than fifty (50) dollars, and no share shall be issued for less than its par value; and that no certificate of shares shall be issued to any member until the shares are fully paid up.

10. That no member of such society shall be entitled to more than one vote upon any subject, which must be cast in person; and that the board of directors shall have power, unless otherwise provided in the bye-laws of the society, to fix and regulate the number of shares to be held by any one member.

11. That any society incorporated under this Act may hold in its corporate name any amount of interest in any other society through which its products are disposed of or its supplies secured; *Provided*, that such interest so held shall not exceed one-third in value of the paid-up capital of the society holding said interest.

12. That the board of directors of every society incorporated under this Act shall annually make a statement in writing of the condition of such society, setting forth the amount of capital stock, the number of shares issued and the par value thereof, the number of stockholders and number of shares held by each, the amount and character of the property of the society and of its debts and liabilities; and said statement shall be signed and sworn to by a majority of directors, including the treasurer, and filed in the office of the clerk of the county where the principal office of such society is located, and that immediately thereafter a copy of such statement shall be forwarded to the chief of the bureau of statistics of labour and industries who, if he shall have reason to doubt the correctness of such statement or upon the written request of five members of such society, shall cause an examination of the books and affairs of such society to be made and render a correct statement to the members thereof; and every member or creditor thereof shall be entitled to receive from the secretary a copy of such annual statement; and every director or other officer refusing to comply with the requirements of this section, or making and signing a false annual statement of the condition of the society, shall forfeit for each offence the sum of one hundred dollars, to be recovered in an action of debt in any court of competent jurisdiction in this State by any member or creditor of the society who shall sue for the same.

13. That any member or other person having an interest in the fund of any such society may inspect the books thereof, at all reasonable hours, at the office thereof.

14. That there shall be such distribution of the profits of such society, among the workmen, purchasers and members, as shall be prescribed in the certificate of association, at such times as therein prescribed, as often at least as once in twelve months; *Provided*, that no such distribution shall be made until a sum equal to five per centum of the net profits shall have been appropriated for a contingent or sinking fund, and that such appropriation shall continue to be made until there shall be accumulated a sum equal to thirty per centum of the capital stock of such society.

15. That any member of such society, by writing under his hand, delivered at the office of the society, may nominate any person, being the husband, wife, father, mother, child, brother, sister, nephew or niece, or other relative of such member, to whom his or her share of the capital stock of the society shall be transferred at his or her decease, and from time to time may revoke or vary such nomination, by a writing similarly delivered; and such society shall keep a book, wherein the names of all persons so nominated and the number of shares to be transferred shall be recorded; *Provided, nevertheless*, that in lieu of making such transfer, the society may provide for payment to all such nominees of the full value of shares intended to be transferred; *Provided, also*, that if by the bye-laws of the society the shares are transferable, this section shall not be construed to forbid the transfer of such shares by sale or will, or otherwise, subject to the consent of the board of directors.

16. That any such society may be dissolved in the manner in which any other corporation may be dissolved under existing laws.

17. That where the whole capital of such society shall not have been paid in, and the assets of such society shall be insufficient for the payment of its debts, liabilities and obligations, each stockholder shall be bound to pay, on each share held by him, the sum necessary to complete the amount of such share, as fixed in the certificate of association, or such proportion as shall be required to satisfy such debts, liabilities and obligations; *Provided, however*, that no such contribution shall be required from any person after the expiration of one year from the time he has ceased to be a member, or for any debt, liability or obligation contracted after he has ceased to be a member of such society.

Approved March 19th 1894.

LAW RELATING TO MONTI FRUMENTARII * (ITALY).

Law of 17th July 1890 (opere pie).

* * * * *

3. In every commune is established a charity committee with the powers granted by the present law.

4. Institutions of public beneficence are under the management of the charity committee, or of such bodies, councils, boards, or other governing agencies as are specially charged therewith by their deeds or statutes of foundation.

5. The committee shall consist of a president with four members where the village has less than 5,000 inhabitants, with eight members when the population is from 5,000 to 50,000, and with twelve in other cases.

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* *See* Vol. I, pp. 195–96. These institutions are ancient charitable institutions and are still classed as 'opere pie.' But these operations, though charitable, are on a business footing, and may thus be compared in character with those of the Irish Loan Societies under the Act of 1843. Their present object is the supply of grain for seed and maintenance during the cultivation season, and cash for the purchase of cattle and implements.

They are regulated by the law relating to 'opere pie' (17th July 1890), of which, however, only such sections will be extracted as will display the general management and supervision of the various 'opere pie' in Italy. The special law, however, does not contain the whole law on the subject, for the communal and provincial laws require the local authorities to watch the management of such institutions.

6. The president and members are elected by the communal council * in the autumn session: not more than half of the members must belong at the same time to the communal council.

The president remains in office for four years; one-fourth of the members retire each year.

* * * * *

18. The managing bodies of public charitable institutions shall maintain an exact inventory of all movables and immovables, rights, dues, charges and obligations with their respective documents.

19. A statement taken from the above with all subsequent additions and alterations shall be sent to the mayor of the commune, and to the Provincial (District) Administrative committee.†

20. The managing bodies must annually draw up a budget, a statement of expenditure and a repor on the work done.

21. When the treasurer (of a society) has not presented his account within one month (from due date) the district administrative committee shall proceed to draw it up at his expense.

The managing bodies must proceed to consider the account within two months of its receipt: in case of failure the district administrative committee shall examine it, and must, in that case, dispose of the matter within three months.

22. (Each charity committee may have its special collector or collectors or it may use the village tax collector.)

23. (Any surplus funds are to be deposited in the Postal Savings bank or other approved bank. The rules of the Postal Savings banks as regards the amount of deposits either annual or aggregate, do not apply.)

24. The income of public charitable institutions shall be collected according to the rules for the collection of communal dues.

* * * * *

29. When by the non-observance of the methods prescribed by the law, by the statutes, or by the rules for the preservation of the funds of an institution, the managers have negligently and culpably, even though not criminally, caused loss to the institution, the district committee may of its own motion or on demand by the prefect, proceed administratively to ascertain the loss, and the persons responsible.

Such enquiry shall not prejudice the cause of the parties, but shall serve as a basis for action before the judicial authorities.

GUARDIANSHIP.

35. Public charitable institutions are placed under the guardianship (tutela) of the district administrative committees.‡

36. The following matters must be submitted for the approval of the district committee:—

(*a*) the budget;
(*b*) the statement of expenditure by the directors and the accounts of the treasurers and collectors;
(*c* and *d*) (certain contracts and leases of property);
(*e*) resolutions which effect any transformation or diminution of the funds;
(*f*, *g* and *h*) various matters relating to staff, their pay and pension, resolutions regarding the collection of dues, and appearances in court.)

* * * * *

39. The district committee must, when reviewing the budget, take care that the expenses of managing public charitable institutions are reduced to what is actually necessary. When, with such view, a modifica tion of the articles is necessary, the committee should suggest such modification.

40. Before disposing of the matters submitted for its approval, the district committee may order, at the expense of the charitable institution, such verifications or examinations as they may think necessary.

41. An abstract of the resolutions of the district committee in their capacity as guardians must be published in the Prefect's gazette.

42. [Provides appeals to the Corte di conti and to the King.]

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* The communal council is a body elected by the residents of a commune for the disposal of communal business: it meets, however, only twice a year and is similar in powers to the general meeting of a company, subject, of course, to the check and control of superior authorities. But the general work of the council is done by a standing committee (giunta) similar to the board of directors in a company. The mayor is a Government officer, and is the head of the communal administration.

† This is a committee (giunta provinciale amministrativa) composed of the Prefect (Collector) and six members who dispose of non-judicial (administrative) applications and appeals. There is one such committee for every province (district) of which there are 69 in Italy.

‡ Both the Prefect (Collector) and the communal council are specially empowered and required by law to keep watch over the management of these institutions. Section 106 of the communal law requires not only general watchfulness, but gives the communal council power 'to examine their management and inspect their accounts.' But they cannot of themselves interfere in the management and should communicate their proposals to the Home Minister.

The distinction betweeen the 'tutela' of the district committee, and the 'vigilanza' of Government (*see* next heading) is that the committee watches over the institution in the interests of the welfare of the institution itself, while the Government supervision regards matters from a public and general point of view, *e.g.*, the committee watches over the management of a Monte Frumentario to see that its operations are safe, prudent and economical: the Government supervises its effect on the public, notes whether it is carrying out the object of its foundation, and considers whether such object is desirable and its methods beneficial.

SUPERVISION AND CONTROL OF THE STATE.

* * * * *

44. The supreme supervision of public charity rests with the Home Minister. He watches over the regular management of institutions, examines their position both in the matter of their administration and in reference to their objects, and takes care that they obey the law, the statutes of their foundation, and their articles and rules.*

In each district one of the members of the Prefect's (Collector's) council, appointed thereto by the prefect, is specially charged with the duty of watching over the observance of the laws in the matter of public charity.

45. When the district committee or the managing body of an institution does not obey the provisions of section 39, the prefect may make to the Home Minister such proposals as may seem needful.

* * * * *

50. When the managing body of an institution, notwithstanding authoritative warnings, does not hasten to fulfil a duty required by the law or by rule, the political authority (Government representative) may order such fulfilment by means of a special delegate.

* * * * *

52. The Government authority shall cancel the resolutions and orders of the charity committee and other charitable institutions when they contain violations of the laws, or of the general regulations, or of any special statutes having the force of law.

(Various rules for carrying out the above provisions are also given.)

53. The prefect may, of his own motion, or on the request of the communal authorities, order at any time an examination of the offices and administrative acts of the charity committee and of the other charitable institutions and may verify the treasurer's cash balance.

The Government authority of the taluk (circondario) may, under the same conditions, order a verification of the treasurer's cash balance.

LAW GOVERNING THE POSITOS (GRAIN BANKS) OF SPAIN (26TH JUNE 1877).†

1. A standing committee shall be appointed in each province (district) called the permanent committee of positos. It shall consist of the Governor (Gobernador Civil, Collector) ‡ of the province as president, of the provincial agricultural officer, of two of the councillors (of the provincial council), of two members of the provincial committee of agriculture, industry and trade, and of two residents of the province elected from among the 50 persons paying the highest revenue as land-holders or cattle-breeders.

Members shall be nominated by the Home Minister. The Secretary shall be the person who is Secretary to the Provincial Agricultural Committee, but shall have no vote.

2. The commitee shall, as soon as it has been constituted, proceed to ascertain whether all the institutions under its supervision are in possession of the funds belonging to them. The Home Minister shall fix a date for the completion of such investigation.

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* The following are some of the rules contained in the Regolamento attached to the law :—

80. "All the above-mentioned institutions are placed under the supervision of the Home Minister.

Such supervision includes the right of requiring copies of every resolution of the managing body, of arranging for the cancelment of such resolutions, of ordering visits, examinations and enquiries into their management, with reference to their moral, educative and economic results, of obtaining the removal of the managing body and of prosecuting, when necessary, the members of such body or the staff, and of advising the managing body of such reforms as seem essential to the better accomplishment of the objects of the institution and for the public good.

81. The supervision which the communal councils are called on to exercise over these institutions by section 106 of the law relating to communes, does not confer upon them or upon their individual members any right of giving orders in or making arrangements for their business, or of intervening in the meetings of the managing body.

The mayor or a deputy chosen from the communal council has the right of examining at the office (of the institution) all the documents, contracts, and registers of the managing body, reporting thereon at the next subsequent meeting of the council.

82. For the carrying out of the provisions of rule 80, the member of the prefect's council charged with the duty of supervision under section 44 of the law, shall immediately report to the prefect every irregularity, abuse, infraction, omission or violation of the laws or articles, and, in general, every impropriety discovered by his examination of the management, or is otherwise brought to notice by the authorities (*e.g.*, communal council), by public report, by the press, or by private persons; he will also cause seasonable examinations to be made, and will report to the prefect his suggestions in any mattter.

At the end of each half-year he shall make a special report to the prefect—

(*a*) on the working of the institutions of the district;
(*b*) on the progress of any private suit against any institution (this alludes to the right of any private citizen to bring a suit in court in the interests of the institution or of the public: *see* sections 82 and 83 of the law);
(*c*) on the reforms approved of or under discussion;
(*d*) on the state of the capital of the institutions;
(*e*) on any resolutions cancelled for irregularity;
(*f*) the number of institutions unprovided with articles, rules, or treasurer;
(*g*) on the number of managing bodies dismissed;
(*h*) on the number of institutions under the several charity committees grouped or transformed;
(*i*) on the number and result of ordinary and extraordinary examinations of the cash balances, together with, in the latter case, the reasons for the same;
(*l*) on the arrangements which, in his opinion, may be necessary for the proper conduct of each institution.

A copy of this report shall be sent to the Home Minister.

85. (Provides for audit by the Government finance inspectors.)

† Various clauses of only local interest and meaning have been omitted in the translation.

‡ The word 'Collector' will be used in the translation of this law and its rules, since the word 'Governor' (Gobernador Civil) of a 'Province' is misleading to Indian readers. The words 'Collector' of a 'district' more nearly suits the meaning, or, to Europeans, 'Prefect of a department' as in France. The word 'district' is also used as a translation of the word 'Provincia', since an Indian 'province' is very different from a Spanish 'Provincia.'

3. Should any embezzlements be discovered, the committee must proceed forthwith to the recovery of the dues with interest, for which purpose it shall have all the powers granted by law to the public authorities for the collection of revenue.

4. The Home Minister shall, as soon as possible, forward to each committee a statement based on the statistics of 1863, giving all details relative to the funds of the positos.

5. If any of the positos mentioned in such statement, shall have been transformed (*e.g.*, into an agricultural bank) or suppressed, the committee shall note the fact on the file relating to such posito, and send it to the Governor (Collector) who shall forward it within 15 days to the Home Minister for final orders.

6. Every declaration that a debt is irrecoverable shall contain the words "temporarily and without prejudice should the defaulter recover his position." The municipal (communal) councils may grant time for the recovery of the debts, but not exceeding four years; Governors may allow time up to six years upon receipt of a recommendation from the committee.

7. The positos shall maintain their original form. Loans and interest shall be repaid in cash or in kind according to their nature. Cash loans shall bear interest at 0·5 per cent. per month, and may not be refused so long as there are funds in hand, the smallest loans being preferred to the larger ones.

The committee is authorized to convert cash funds into grain funds and *vice versâ*; but a report must be previously drawn up indicating the need for or utility of such conversion and the method of carrying it out. The consent of the Home Minister is necessary when the funds exceed £100.

8. (All immovable property belonging to the positos shall be sold at auction and credited to the respective institutions, except granaries and other buildings necessary for storing the grain funds.

9. The funds shall be administered by the municipal (communal) bodies to whom one-sixth of the gross profits shall be allowed for expenses. The communal councillors shall be individually but subsidiarily responsible for the loans granted.

10. The committee shall nominate to the Collector special delegates for the purpose of inspecting the positos.

11. The communal councils shall maintain separate accounts for the funds of the positos. If there are several positos in a single commune, the council shall endeavour to consolidate them into one.

The accounts of the positos shall be submitted by the councils to the examination of the provincial committee.

12. The Home Minister shall issue such orders and rules as may be necessary.

RULES * FOR CARRYING OUT THE LAW RELATING TO THE MANAGEMENT OF POSITOS.

Chapter I.

* * * * *

4. If any commune, in view of the duties imposed on it and powers granted to it by certain sections of the law relating to municipalities (communes), wishes to found a posito, it must draw up a file containing (1) the resolution of the communal council to found a posito; (2) a statement showing the funds and resources on which the institution may rely; (3) proof that the institution will be useful or necessary; (4) the building in which it will be accommodated; (5) the nature of the cultivation which predominates in the neighbourhood; (6) the extent and urgency of the needs which will be relieved by the posito.

5. [The file is to be sent to the Provincial (District) committee, who will send it, with their report to the Governor (Collector) for action.]

6. When the foundation of a posito has been approved it must be opened within one month, notice of the date of opening being sent to the Collector through the district committee, and published in the surrounding villages.

* * * * *

8. The sixth part of the profits allotted to the communal council by section 9 of the law shall be divided into two equal parts, one of which shall go to the managing committee of the posito, of whom the mayor and secretary shall be members, and the other for the expenses of administration.

Chapter II.

9. (Mentions various duties of the Provincial standing committee, including that of examining the accounts, &c., of the positos as per section 11 of the law.)

* * * * *

11. The committee shall meet for business in the Governor's (Collector's) office at least once a week. Every member must assist; if unable he must send an excuse in writing.

12. Any member absent without good excuse from three successive meetings, or failing to carry out a duty imposed on him, will be considered to have vacated his post.

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* Only such rules as are of general interest have been translated. The words 'Governor' and 'Province' are generally translated by the words 'Collector' and 'District' as being the nearest corresponding terms.

Chapter III.—Accounts.

* * * * *

15 to 24 provide for the keeping of proper accounts, showing each loan and repayment whether in money or grain and for the preparation of an annual balance sheet and report: these latter are sent through the standing committee to the Collector.

25. The committee shall, on the 1st September, send to the Home Minister through the Collector, a general statement showing, in alphabetical order, the situation of the positos and the business done by each during the year. The form of this statement shall be prescribed by the Home Minister, who shall draw up a general statement for the whole country.

Chapter IV.—Repayments to the Positos, and the Rate of Interest.

26. The communes are bound to collect the sums due to the positos: they will, when necessary, use the coercive powers granted by the orders of 3rd December 1869.

27. Loans in grain shall be repaid with an increase of $4\frac{1}{6}$ per cent.* Interest and principal must be collected at the first harvest at whatever period the loan may have been made.

28. Payment of such loans must be made within three days after it falls due. The precise amount shall be signified to the debtor, and should it not be paid it shall accumulate at compound interest till next harvest. The whole amount of interest must be paid even though the debtor shall have settled his account before due date.

29. Grain debts may be paid in cash or in grain at the pleasure of the borrower, grain being commuted at the average market price of the village and its neighbourhood on the day preceding payment.

30. Cash loans shall bear interest at 6 per cent. per annum, or at 0·50 per cent. per month when the loan is repaid in less than a year, the months of payment and repayment being considered as entire months. The rules relating to grain loans shall be applicable to cash loans (*e.g.*, rule 29).

Chapter V.

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32. Declarations that a debt is irrecoverable shall be made after due proceedings taken by the commune against any debtor in arrears.

33. In such proceedings it must be proved beyond doubt that every administrative method for collection has been exhausted without success.

Thereupon the communal council shall propose to close proceedings against the defaulter on the ground that the debt is irrecoverable either from the defaulter, or from his surety, if any, or from the communal councillors if they have granted the loan without security or have neglected to proceed to recover the dues at the proper season.

34. On the above decision being passed the communal council shall transmit the papers to the Collector who, in consultation with the standing committee, shall give his decision.

35. The Collector of the district may declare the debt irrecoverable, adding, however, the additional clause contained in section 6 of the law (viz., that the failure is to be considered temporary and without prejudice should the defaulter recover his position) so that the debt to the positos may retain its preferential rank.

* * * * *

38. Any delay granted for the recovery of a debt must only be allowed on the application of the debtor and upon a regularly drawn up proceedings in which the debtor and his sureties are bound, on giving good security, for the whole capital and interest due.

Chapter VII.—Inspection of the Posito.

* * * * *

47. (Appointment of inspecting delegates and their visits of inspection.)

48. The inspectors must ascertain whether the minute books and accounts are clear and precise; they will correct any irregularities and take all necessary steps to prevent their recurrence. They shall report to the standing committee all that they have observed, noted, and done. They shall, when necessary, verify the accounts in view to ascertain the actual quantity of grain, money and other valuables which form the funds of the posito. They shall make an exact inventory of the loans granted and the interest thereon, with the names of the debtors and their sureties. They shall also arrange with the communal councils for any improvements which they may consider desirable.

* * * * *

Chapter VIII.

50 and 51. (Regulates the staff, clerical and account, to be employed under the standing committee, the scale being very moderate and economical.)

All these posts shall be filled by ex-employés of the civil administration.

52. Every posito in a district must pay (annually) one penny for every fanega ($1\frac{1}{2}$ bushels) of grain in their granary and 0·25 per cent. on their cash fund, to the standing committee, in order to meet the expenses mentioned in rule 51.

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* One-half celemin per fanega; 12 celemins or gallons go to the fanega which is equal to 12·2 gallons or $1\frac{1}{2}$ bushels. The grain interest is a fixed proportion whether the loan be for one month or twelve: usually the loan will be for six months or less.

MISSION BANKS.

These are still in conception, except for one or two Provident Societies as at Nazareth in Tinnevelly district. It is, however, understood from several missionaries, that small banks for the relief of Christian people belonging to their spheres of work are likely soon to be started. This is as it should be; no part of the population is more deeply oppressed by usury than the almost invariably poor people who form the bulk of Christian congregations, while in the persons of their missionaries and other pastors, they have precisely the leaders who can place and instruct them in the way of thrift, prudence, and co-operation; in fact, the very position of these congregations, excerpted from and, to a great extent, isolated amongst the rest of the population, should tend to bind them naturally in co-operative union. Moreover, the missionaries, instructed as they are in the necessity for and methods of thrift, prudence, self and mutual help, will be able very specially to stimulate and lead early efforts, though it is hoped that guidance will not mean governance beyond what is necessary.

Bellary, which has already distinguished itself beyond all other mofussil towns in the large number of its Nidhis—showing, *inter alia*, how ready the population is for such institutions, how promptly a good example is copied, and how easy it is to found and to work such institutions if but a few good men are available—is likely to have soon its co-operative Christian bank through the efforts of the Reverend B. Lucas of that town, while Cuddapah is not likely to be behindhand. The articles of the proposed banks are not, however, yet available.

The Salvation Army scheme is, similarly, in conception; its praiseworthy hopes and efforts to raise, economically and socially, large masses of the poor, include a scheme for village banks or brotherhoods; the scheme, as set forth in its tentative articles, includes a complex organization beginning—according to Salvation Army principles of organization—with the General and extending to the villages; indeed, one of its weak points appears to be that it reverses Luzzatti's maxim, derived from practical experience, that popular credit for the small folk must proceed from without inward; that is, village banks must first grow one by one, here and there in an area till there are enough to found a group in that area, and the several groups shall then form a further union with centralized powers of advice, audit, and assistance. The Salvation Army scheme, however, largely depends, even for its initiative and finance, upon the energy and capacity of the General, and this power is to be passed on by International, National, and District committees to the village brotherhoods, which are thus seen to be institutions of but slight local effort. The scheme, however, is only tentative, so much so that the publication of the articles is not yet permissible; it is, however, greatly to be hoped that this powerful organization will very shortly see its way to practical experiment.

Mention is specially made here of the efforts or intentions of missionaries and mission agents, since one of the lessons taught by European experience is that when the foundation principles have been settled by practical experiment as in the Raiffeisen and Italian Banks, no one is a more valuable propagator or founder of such banks than the village clergyman, coupled with whom are generally found the village apothecary and the schoolmaster, with a proportion of lawyers and other philanthropic business men. In other words, the stimulus and the initiative must almost necessarily proceed from outside the classes to be benefited; it is the philanthropic men who *know* that must first take action. Hence it is very fitting in India that men, possessed of independent powers, true philanthropy, and economic knowledge, should experiment practically in the direction of organizing credit; the missionaries are in this position, and would probably be able to secure, whether from Government * or from other sources, the small starting and working funds necessary, and could thus work out the form of village or class bank which might be useful to their numerous adherents and persons with whom they are in touch.

Nevertheless it is on the energy, wisdom, and help of the numerous body of Government officials—retired or in their private capacity—of the still more numerous lawyers † and schoolmasters, and of associations elsewhere proposed—after the methods of France and Ireland—that India must mainly depend, at least at the start, for independent, self-helping, co-operative village banks, and it is but a poor national outlook if, with the knowledge even now available, both of needs and methods, for the organization of small credit for the masses of poor yet solvent and industrious ryots, the classes above named are disinclined to venture upon the experiment. Apart from philanthropy and duty with their own reward, there is the reward of an undying name and gratitude such as attaches to many names in Europe; it is not upon the Government but upon themselves that leaders of economic and social reform should call.

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* *See* Vol. I, pp. 26–28, 348, 377–78 and 392.

† The most strenuous promoter in France of village banks on the Raiffeisen principle is that philanthropic lawyer M. Louis Durand of Lyons, and there are very many others in France as in other countries.

CHAPTER IV.—AGRICULTURAL ASSOCIATIONS.*

INTRODUCTION.

One of the most noticeable features of industry and capital is the tendency towards association, whether it be in the form of the ancient guilds and corporations, or of the joint stock enterprises and trades' unions of the nineteenth century. Agricultural association, however, for reasons which need not here be mentioned, has till of late years been entirely wanting: association, that is, of the farmers and cultivators in groups for the furtherance of their immediate interests, as distinguished from the Agricultural Societies and Chambers of Agriculture for the promotion of scientific agriculture. The 'Farmers' Alliances' of the United States, the 'Syndicats Agricoles' and 'Bauernvereine' of France and Germany, and the 'Agricultural Labourers' Union' of England are but modern and partial efforts towards the former class of agricultural association.

In India such association is entirely wanting, and yet it is in India that it is most needed. The ignorance of the peasant, his hitherto isolation from the outside world, his consequent inability to hear of and his unreadiness to believe in other methods than his own ancestral modes whether of cultivation, business, or finance, and his exploitation by trader, broker, and usurer alike, require that he should be stimulated, strengthened, and educated in methods and business practices calculated both to lessen his expenses, to increase and improve his produce, and to give him a larger share of the same. That is the immediate work of Agricultural association, while, as shown *passim* in Vol. I, there flow from association, as it develops, incalculable other benefits, not merely economic such as credit, but moral and mental, as in the development of self and mutual help, of thrift and providence, of foresight and calculated effort, of self-reliance and independence coupled with friendly union and mutual intercourse. But the great difficulty in these associations is not merely in starting them, but in sustaining their early life till, being based on proved usefulness, they form part of the customary organization of the village. An Agricultural association, if it is to be more than a mere debating society, or than an artificial product with but a simulated and temporary life, must have certain defined and practical aims; it must yield tangible benefits, or the ryot will have none of it. The mistake hitherto has been that a petty society, imposed probably on a few farmers by external enthusiasm or influence, has not justified its novel and unsought existence to its members by giving them some visible good result: it has too often been a mere machine for spasmodic talk, or it has attempted crude experiments with unproved implements through unsuitable agents; the results are failure, the collapse of the society, and more deeply-rooted scepticism, just as the failure of the many Nidhis, fraudulently or foolishly started and managed, has been a serious blow to the organization of credit. The following remarks attempt to show that associations may at once be made so useful that they will have a life of their own, and may stand from the beginning.

The objects of associations are noted generally in section 107 of the Draft Bill in Vol. I, to which may be added "the promotion of rural industries, and the development of the various classes of Co-operative society."

Credit by associated effort has been dealt with fully in Vol. I, whether credit be sole object of the association, or the work of an annex.

Many of the other objects, notably 1, 2, 5, 6, 7, 10, 11 and 12 may be at once pursued with tangible and profitable results. Item (1) is the purchase of all stock and other requisites for agriculture including, of course, clothes and food. Those who have studied the methods of supply know at what heavy rates credit is granted in these items, and even where cash is paid, as for clothes, salt, &c., the necessity for small individual purchases means dear and bad goods. To discuss this further would be to discuss co-operative distribution; it need only be said that experience proves a gain of from 10 to 50 per cent. in the quality and price of goods obtained wholesale by a large buyer such as an association, the custom of which is valuable to any vendor. For instance, in the very first year of five of the Irish Societies promoted by the Irish Agricultural organization society in 1894, artificial manures to the amount of 2,055 tons were bought at rates varying according to the manure from £3–9–0 to £6–0–0, while the prices previously paid by the individual farmers ranged from £5–0–0 to £10–10–0, credit being given for the same time in both cases. The consolidated orders of members (*see* translation of the articles of French Agricultural associations) would be placed with tradesmen, or the association would purchase the goods in advance and sell by retail to the members.

Item (2) is perhaps more important, viz., the collection of produce from members and its sale to purchasers. Many valuable products such as cotton, sugar and jaggery, indigo, turmeric, tanning bark, &c., are sold by producers at much less than the market rates, because they are sold in small quantities to petty middlemen, who are frequently three or four times removed from the real purchaser; *e.g.*, cotton is bought by the large shippers not from the ryots but from brokers, who employ agents and

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* This chapter is to be read as an *addendum* to Vol. I. In translating for Vol. II the articles of various French Agricultural associations, and on perusal of later information such as that regarding the 'Agricultural Banks Association' in London and the 'Irish Agricultural Organization Society' in Dublin, both formed only in 1894, it has become clear to the writer that a brief chapter on Agricultural association and organization is a necessity, as, it is believed, the text of the chapter will show. Moreover it is believed that the suggestion for an organization society, *i.e.*, a society formed for the sole purpose of encouraging, promoting, organizing and supervising village societies, will solve the difficult problem as to the formation of Village banks and societies. The suggestion is borrowed from the Irish Society above mentioned—a society which has already met with great success through the energy and zeal of its founders and members, and is apparently turning Irish peasant farmers rapidly towards co-operation: *see* text *infra*. It is by some such society that the corresponding zeal and devotion of earnest men in this Presidency may be utilized in overcoming the timidity, ignorance and *vis inertiæ* of the Indian ryot, and the necessity for Government interference minimized. The Mahajana Sabha or the aborted Agricultural association formed in Madras at a public meeting in 1892 might, with the assistance perhaps, of the Director of Agriculture, undertake this all-important rôle.

sub-agents to collect in small quantities from the villages; hence—and by reason of the system of advances, often on usurious terms—the ryot gets a price far below the real value of his cotton; he pays the wages and profits of several middlemen, while his necessities or ignorance or both, entail hard bargains. If an association should gather in the cotton from its members, and tender, say, 1,000 pothis direct to the press owner, it would obtain the best current price, avoid the costs of the middlemen by itself acting as such, and pay over the whole of such price to its members, less any advances with interest which it might have made to them; such advances, moreover, would be at equitable rates. Hence a large immediate saving and an equally large gain to the ryot members.

Item (5) is the establishment of Benefit funds: these may take various forms, and attention is drawn to the articles of a French vine-dressers' association for assisting sick members by contributing gratuitous labour during part of such period.

Items (6) and (7) relate to the provision of stud cattle and the employment of veterinary experts. Now that the method of dedicating bulls seems to be on the wane, it is imperative that a substitute be found: the purchase and use in common of good stud bulls and rams would be an immediate and obvious benefit. And while a single association might not be able to employ a veterinarian, a group could do so, especially with Government aid, in which case a veterinary station and stud depôt might be formed at many a centre.

Item (10) is the study and representation of matters affecting the agricultural industry. It is certain that where single voices, each untutored and incapable of properly stating a case, might not command attention, even though numerous, the temperate, well-stated case of an association representing such individuals, would, at all times, be of value. It is not merely that the association would represent a number of persons, but that the contents of the memorial would most probably have been duly sifted, extravagances or absurdities rejected, and only such matters put forward as might represent a grievance which would be real or which would genuinely seem real to the memorialists.

The reasons for proposed changes in the kistbandi, in the rules relating to well irrigation, in the methods of collection when irrigation sources have short supplies, in forest rules, and so forth, might all be represented by such associations with advantage to the ryots and to the administration. So again such associations would serve as distributors of information, as instruments of enquiry, as sources of information, and as agents for the conduct of experiments.

Item (11) is arbitration between agriculturists; this is partly provided for by the village panchâyat system, but associations would, even if not providing arbitration, be influential in directing their members towards arbitration by the panchâyat instead of allowing them to ruin themselves and to promote feuds and factions by unnecessary and vexatious litigation.

Item (12) is the joint carrying out of projects of irrigation, drainage, plantation, &c. There appear to be many opportunities wasted of taking over small irrigation works or of creating new ones, which are now neglected for want of joint action, while such associations could, by arrangement with Government, take over the duties of kudi-maramat, or by village arrangement, could carry out *quasi*-communal duties, such as the repairs to korambus for Cauvery channels in Coimbatore. In this way much useless Government interference could be obviated. In matters of drainage, again it would be possible, for instance, to arrange for the planting of large blocks of sugarcane, a frequent impossibility at present, because of the rights of neighbouring ryots to surface water so that a ryot is obliged to grow paddy when he would prefer sugarcane. Village plantations, moreover, might be taken up for the supply of fuel and grazing without the intervention of the Forest department.

In France and Germany the 'Associations Syndicales'* may be formed compulsorily, the objects of such associations being, generally, those of item (12); voluntary associations are preferable, if formed, and, in Italy and elsewhere, such associations are assisted with funds, &c., by the Agricultural department.

There are other immediate advantages such as those mentioned in section 114 of the Draft Bill.

The question, however, arises whether such associations can be started and maintained in countries where they are altogether novel and unsanctioned by, if not opposed to, custom. Probably the answer would, prior to 1884, have been in the negative in France and, prior to 1894, in Ireland, seeing how few Agricultural associations, even for the *quasi*-manufacturing industry of butter-making, existed in those countries. But the answer of the French peasantry is found in the 1,200 Agricultural associations with, perhaps, half a million members, formed in the eleven years since 1884; in Ireland the question is being answered affirmatively even among a peasantry where the rent and other questions are such delicate problems.

The following paragraph is taken from the *Spectator* of 11th January 1896, quoting the 'Times' of the 6th idem:—

"Perhaps, however, the most interesting of all the new and healthier signs are those connected "with the spread of the co-operative movement, especially in connection with agriculture. The farmers, "even of quite remote districts in the south and west, have, in many cases, literally flung themselves into "the co-operative movement. A couple of years ago Ireland was the despair of the co-operators, "now it is their boast. Not only has the movement connected with the creameries been spreading, "but Co-operative societies for enabling members to purchase jointly their seeds, manures, feeding "stuffs, and other agricultural requisites, have been started. How considerable must be the effect of "this movement may be judged from the following facts. A saving of at least £6,000 has been effected "in the purchase of artificial manures alone, † and even those who are not members have derived "advantage from the effect of the competition upon local dealers."

"Members," adds the writer in the 'Times,' "had an additional gain in the guarantee of good quality which analysts secured to the smallest purchaser." The following facts as to the Co-operative societies are also well worth notice:—"It is estimated that the sales of the Co-operative dairy "societies, as the creameries are called, will amount to £20,000 this year. The purchasers of the "Agricultural Co-operative societies in non-dairying districts, £5,000; and the turn-over of the Irish

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* *See* elsewhere in this volume, translation of part of the law relating to the French "Associations syndicales." Mention of the voluntary and compulsory associations for drainage and other agricultural improvements is made on pp. 63 and 64 of Vol. I.

† This was in one year and by only five societies, the artificial manure being 2,055 tons in quantity.

"Co-operative agency society, £80,000. The quality of the butter is attested not only by the prices "obtained, but by the number of prizes won at Islington, Chester, and several other places. The number "of societies has increased from sixty-seven on March 31st last (1895) to eighty-seven at the present "date." "Very interesting, too, is the prospect offered by the establishment of what are virtually "land* banks. Four credit societies, we are told, have been established at Doneraile, County Cork, "Johnstown, and Urlingford, County Kilkenny, and Kyle, County Tipperary. Their object is to "get rid of the extortion of the 'gombeen' man, and make advances on moderate terms. Clearly "co-operation has a very great future in Ireland."

Even this does not fully express the change, since, prior to the 31st March 1894 there were only 33 co-operative creameries or dairies, no co-operative supply associations, and no co-operative credit societies or Village banks. The increase in dairies, the initiation of societies and Village banks, dates from the inauguration, on the 18th April 1894, of the Irish Agricultural organization society, the special work of which is the promotion of the co-operative movement in agriculture, especially as regards agricultural associations for supply, production—especially of butter— and credit. When so great a change as is mentioned by the 'Spectator' is synchronous with the inauguration and efforts of a special society framed *ad hoc*, it may reasonably be concluded that the change is largely due to such society. This in fact is the case.

The further question, then, is *how* are village associations to be started and maintained. In France, as shown in Vol. I, a number of energetic men took up the idea, preached it through the country, established small societies, and then formed Central societies for the assistance of the new associations. In Ireland the energetic and patriotic men corresponding to those of France, began in the more business-like way of forming, in 1894 an "Agricultural organization society," which is intended to last, as such, for only five years, within which time it expects to have formed a large number of associations, and to have placed co-operative or joint effort on a solid foundation. When this is done it is intended to form a "Central Farmers' Association" by delegates and representatives from each society; this central association formed out of the societies themselves, will then replace the original creative society which will have lost its *raison d'être*. The initiatory success of the society has been mentioned above; societies are being successfully formed, worked, audited and supervised, and it is anticipated that even the short term of five years will hardly be needed for the replacement of the original society.

It appears that, about 1889, the idea of co-operative production was adopted by certain reformers who pushed the idea with some success in the establishment of about 33 co-operative dairies in the south of Ireland. Progress, however, was slow, and the suggestion of systematizing effort by the establishment of an 'Organization Society,' the sole object of which should be the stimulation, establishment, and maintenance of Co-operative Agricultural Association, was hit upon. Accordingly an inaugural meeting was held on the 18th April 1894, attended by men of all shades of political and religious opinion. The Chairman (Honourable Horace Plunkett, M.P.) presided, and described the work of the intended society, and the necessity for its formation. The society was accordingly formed under very simple rules; it is a limited society, registered under the 'Industrial and Provident Societies' Act (*see* chief sections of the Act in this volume); its members may be persons, societies or co-operative bodies; its shares are of £ 1 value and transferable with the consent of the committee, but bear no dividend or interest; donations and subscriptions may be received from non-members. The object of the society is "to improve the condition of the agricultural population of Ireland, by teaching the principles and methods of co-operation as applicable to farming and the allied industries, to promote industrial organization for any purposes which may appear beneficial, and, generally, to counsel and advise those engaged in agricultural pursuits." (article 2).

As shown above, it has translated the object mentioned in the above article by stimulating, fostering and organizing a large number of local associations in its very first year, and with constantly increasing success; in its first year 315 meetings of farmers were held, each of which was attended free of all charge either by the Secretary of the Organization Society, by his Assistant, or by a local 'organizer' of whom five had been appointed; as a result of these meetings thirty-four societies in addition to the 33 established between 1889 and 1894, were organized and registered in 1894–95, and fifteen more were in an earlier stage. In addition to these meetings, the society started a weekly paper, 'The Irish Homestead,' price 1*d.* containing a large amount of suggestive information, a record of work, &c.: a large number of useful leaflets were also printed and circulated.

The following quotations or abstracts from the speech of the Chairman at the inaugural meeting of the society, and of other speeches, at the first anniversary meeting, are instructive.

The speaker, at the inaugural meeting, pointed out that the scheme dealt solely with the rural population dependent on the great agricultural industry. The industry was certainly capable of vast improvement, viz., in the practice of the Act, in the relations and connection between producer and consumer, in the supply to the farmer of his requisites and in agricultural finance. Unless harmonious and equitable relations could be established between these interests, agricultural development was hardly possible. Such relations might, however, be developed by what was strangely lacking in the farmer, viz., combination or association.

"While every other trade and industry has accepted the great essential of modern commercial life, namely, the necessity for combination, the Irish farmer, and for that matter the English farmer as well, continues to conduct his business on the old individualistic and exclusive lines which the progress of the world has swept away from every other avocation. This is not the case all over the world. If time permitted, I could show you how this principle is being accepted in other countries. I think it is not too much to say that, wherever the condition of the people in rural communities has, of late, been materially improved, it has been done by a combination of the people themselves for their own improvement. We often look with envy at the amount of money other countries spend upon agricultural interests; but you will find in all cases, that a pretty strong organization precedes Government assistance. When I come to deal with the plan of work which our association might adopt, I shall show you that our programme will consist mainly in inducing the Irish farmer to do for himself what has been successfully achieved by the farmers of other countries.

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* This is an error for Agricultural or Village banks: they are not land banks in the true sense of the word, viz., land mortgage banks.

The key-note of our proposals is the proposition that the Irish farmers must work out their own salvation, and further, that this can only be done by combination among themselves. I am quite aware of the difficulty which at once suggests itself. It will be pointed out, that effective combination for productive or commercial purposes is not to be accomplished simply by a recognition of the fact that it is necessary to combine. An association which is not to be a mere debating society, but which is to be capable of joint action, must be organized on certain well-known, but rather complicated, lines in order to be permanent. The farmers, from the nature of their occupation, are incapable of evolving for themselves the principles which must be observed in framing such rules as will do justice between man and man, and harmonize the interests of all concerned. Even when a farmer grasps the idea that he ought to combine with his neighbours, he cannot put before them an intelligible and workable scheme. Now, here is the point at which, without any interference with his business, without weakening his spirit of independence, without any departure from the principles of political economy, we can do the Irish farmer a great service. To bring to the help of those whose life is passed in the quiet of the field, the experience which belongs to wider opportunities of observation, and a larger acquaintance with commercial and industrial affairs—that, gentlemen, is the object and aim of this society. Patriotism and philanthrophy alone will not avail, or the work would have been done long ago. I admit that this is no easy task. We have got to turn the current of national thought on these subjects into new channels. It will take the best men in Ireland to fulfil such a mission, but the best men in Ireland are with us, and the task will be performed."

The speaker then proceeded to discuss the several branches of co-operative work, viz., co-operative dairying already began on a small scale, co-operative sale distribution, co-operative supply of rural requisites, the dissemination of knowledge, the protection of common interest, arbitration, &c., and finally, co-operative agricultural finance, already found so successful on the European continent.

Not only, however, is association materially beneficial, but educationally in a wide sense of the word. "I wish to call your attention to another and very important aspect of local organization. While people differ as to the possible increased production which would result from improved husbandry, it is generally admitted that the soil of Ireland does not produce anything like what it ought to produce. An opinion prevails that the desired reform in our agricultural methods would follow upon the establishment of an Agricultural department, of which I shall speak presently. Now I have a strong belief, based upon a considerable amount of observation, that no means of improving the methods of farmers will be of any great utility so long as a central body tries to work upon unorganized individual farmers. House-to-house work with this object is slow, laborious, and utterly ineffectual. Habit exercises a predominant influence, which no amount of mission work can overcome. When, on the other hand, the individuals are organized into societies, then the latter form an easy channel for the dissemination of information, and a lever for the enforcement of better methods. And, in addition to this fact, you will find that in such an association the advanced thinkers come to the front, and that the others follow them—the whole process resulting in the triumph of intelligence and progressiveness over habit. The reason I lay stress upon these rather abstruse speculations, is that I consider one of the greatest achievements of our society will be the forging of a golden link between central, beneficial and philanthropic agencies, whether they be Governmental departments, or such splendid institutions as the Royal Dublin Society and the farming community whose condition it is sought to improve.*

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* The writer would here refer to his own suggestions on the absolute necessity for Agricultural association in this Presidency, as contained in a letter read in Board's Proceedings, No. 307, dated 30th August 1887 (Revenue Settlement and Agriculture), in a note prepared for the Agricultural Committee of 1889, and in Vol. I of this report, pp. 218, 366, &c.

The following is a quotation from the above-mentioned Board's Proceedings :—

"I consider that both for this and for agricultural experiment and progress generally, local associations are absolutely necessary. It is impossible to conduct experiments either by officials or by isolated ryots ; the former are too busy and too inexperienced ; the latter are too shy and conservative, too half-hearted and sceptical, too careless of the result of supposed official fads. We ignore, at present, the large amount of experienced indigenous agricultural talent ; we fail to utilize a vast and trained force lying to hand, because we have failed to organize it into a phalanx, and to combine scattered units into one organized whole, and to bring them into rank with our own forces. If competition is the nineenth century watch word, association is doubtless advancing claims for the twentieth century ; this bond alone can unite the *disjecta membra* of the agricultural body politic. I consider, therefore, that we should organize in every district agricultural associations ; not isolated societies, dependent upon, perhaps, temporary local knowledge or interest and enthusiasm, but, while possessing local life and organization, dependent for permanent life and inspiration upon a central organization with head-quarters at the presidency town. The central organization would consist of all the best talent and knowledge available in the whole Presidency, worked officially in the Agricultural department, but corresponding, and having frequent conferences, with its members in the districts. These members would, of course, be principal members of the district associations, which in turn would have members in every chief town and village in a district. The result would be not only that the central association would be supplied with the correctest and best information on all agricultural and rural topics, but would supply information in turn even to the remotest villages, and all this at the least possible expense. Not only so, but real experiments would at last be possible and popular ; at present a ryot, if induced by a Tahsildar to take up an experiment, is not only sceptical and careless, but rather ashamed of departing from ancestral methods ; the result is, of course, failure. But if experiments, wisely chosen by an agricultural bureau composed as above, were entrusted to local associations and by them, to selected members, these latter would not only have the whole intelligence, skill, and resources of the association at their back, but would be rather proud of being selected as delegates, while the experiments, as the suggestions of men of local status, would command greater interest and faith than officially-ordered trials. Moreover, many suggestions are now obliged to be put aside, because, the Agricultural department cannot find time or space to work at them ; the associations would supply a thousand hands and a thousand acres if need be. The results of experiments, moreover, would be rapidly spread over a district, instead of being confined to the pages of the District Gazette. Finally the associations would provide the talent necessary for stimulating and judging competition in prize farms, exhibitions, school farms and the etceteras of agricultural progress. These and many other results will follow skilfully formed associations."

The above was written when the French Agricultural associations under the law of 1884 were only beginning, and in ignorance of the facts of and of the possibilities open to agricultural association in the way of providing credit whether in the form of Raiffeisen banks or as annexes to agricultural associations proper ; the Irish Co-operative societies also were not then in existence. Hence the recommendation of 1887 made no distinct mention of objects which, though then called "the etceteras of agricultural progress," would now be named 'essentials.' Moreover, too much prominence is, perhaps, given to the functions of the Agricultural department in connection with the central organization society.

Organization more beneficial than Government interference.

I must now say a word upon the larger questions, which must be dealt with by a wider organization of agricultural interests. And here again, if I had my way our method of proceeding would differ essentially from the popular conception. The farmers of Ireland, who have never had any idea of the power of business organization, believe that help can only come from the Government. An Agricultural department is now a pet remedy, and so long as its functions are limited to what such departments have done successfully elsewhere, it certainly should be created. But that any Government assistance, whether legislative or administrative, can do one tithe of the good which can be done by organization, is certainly a popular fallacy. The Government can undoubtedly, through its Consular reports and other means at its disposal, disseminate information which cannot be obtained by private enterprise. They may be able to deal with technical education more effectively than it can be dealt with otherwise. They can also protect us from (cattle) disease, and I have no doubt that there are many functions which are now performed by four or five different departments which would be better entrusted to a single Agricultural department. But when it comes to the far larger question of the relation between agricultural and commercial interests, including the arrangements and charges of railway companies, the limits of Government interference are obviously very narrow. It becomes, then, necessary for the farmers to have a thoroughly representative organization to safeguard their interests, and, if necessary, to promote needed legislation.

I look forward to the constitution of a central Chamber of Agriculture, to which delegates would be sent from the local societies which we should have organized. You will easily see how thoroughly representative of the farming interest an association built up from the foundations in this manner would be. As soon as the local associations were sufficiently numerous to give this central body a right to speak for a large portion of Ireland the mission of our society would be fulfilled."

The speaker then went on to describe the *modus operandi* of the inchoate society: its first effort would be to establish an organizing staff: the duty of the society was, at first, to be purely propagandist, and that duty could only be carried out by men of high intelligence, special qualifications, and large knowledge both agricultural and other. These men should be well paid and should spend their time in stimulating and persuading the farmers to association, travelling from place to place as required.* The Press would also be largely utilized, together with the efforts of volunteers. For this purpose, money would be required which would be provided from shares, donations, &c.; up to date above 5,000 shares of £1 each had been taken up; the shares would pay no dividend.

Finally, the speaker pointed out that the society provided no universal panacea and promised no millenium; it was merely a beneficial scheme of self-help, to be stimulated, indeed, by the society and its workers, but to be carried out by the peasantry themselves.

"Ours is a modest programme of organized self-help. Every other attempt to reach the same ends as those for which we are striving has been, so to speak, imposed upon the people from above. We build from the very foundations. We go to the people themselves in no patronizing spirit, but we ask you to believe that their latent capabilities, no matter to what causes you attribute the fact that they have so long lain dormant, can be aroused by the simple influence of intelligent philanthropy. We cannot guarantee immediate success or even rapid changes. We should be prepared for months, perhaps years, of apparently fruitless but most beneficial toil."†

At the first anniversary meeting of the society Mr. Plunkett again pointed out the need for, and benefits of, association. "To put the matter briefly, the farmer, by improving his own methods, by purchasing what he requires in his business more economically, by getting his stock and produce, carried more expeditiously, carefully, and at lower charge by having them distributed among the consumers with less deduction for middle profits; and by importing into the agricultural industry the same credit facilities, as are customary in all other industries, could not only vastly improve the material conditions of his industry, but in the process could not fail to effect a very considerable physical and moral improvement upon himself as a man. The fall of prices being mainly due to foreign importation cannot be legislated away, but can only be suffered and competed with. To enter on even terms upon such a competition, the farmer must address himself to the improvement of his business in every one of the ways in which I have submitted it is capable of improvement. That this generation would see any radical change in these respects unless some entirely new light were thrown upon the subject, and same entirely new influence were brought to bear upon the persons concerned was more than there was any reason for the most sanguine to anticipate. By the help of that powerful auxiliary which we have invoked, namely, organization, we believe that the whole field can be covered the whole task performed."

The speaker then detailed the success of the operations, mentioning especially the stimulus which the society had given to the work of co-operation which had but slowly progressed in preceding years. The work of the 'organizers' paid by the society or assisting as volunteers, was pronounced to be beyond praise, and it is obvious that the success of the society was largely due to their work. The total expenditure for the year in every way was only £1,579, and this included the cost of the *Irish Homestead* and other literature. The experience of the society, moreover, was that it brought men of all classes and opinions together in harmonious co-operation.

Other speakers pointed out that the schemes of the society were orginally viewed with distrust and suspicion, but that a short experience of its work developed so great a volume of co-operation that the society found a difficulty in dealing with it; the aptitude of the Irish peasant for co-operation had been doubted, and it had been expected that his innate distrust and conservatism would crush the zeal of the promoters; these doubts had not been realized and the society had succeeded beyond the hopes of the most sanguine. The defects of the peasant were largely due to his ignorance of what was being done in other countries; as soon as the society proceeded to dispel that ignorance and to teach

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* As mentioned above, five local organizers were appointed in the first year, who with the Secretary and Assistant Secretary assisted at 315 farmers' meetings, and were instrumental in forming or beginning 49 societies in that year.

† As a matter of fact, the toil was immediately fruitful, as shown by the facts mentioned above; the Irish peasantry, previously the despair of co-operators, became their boast. The similar sucess of the French Agricultural associations among the French conservative peasantry, may be compared.

the methods by which the peasant farmer might help forward his own improvement, he began to accept those methods and to clamour for assistance in developing them; every day letters were pouring into the office, requesting that the organizers might visit the districts and give instruction in the methods which were leading to prosperity.

Such, then, is the record of the past year's work of the "Irish Agricultural Organization Society," and it remains to suggest that a similar society be now instituted in this Presidency. The Director of Agriculture, with his powers and duties enlarged by Government or, if necessary, by legislation, to include the work of a Commissioner of Rural credit (*see* Vol. I, pp. 29, 218, 303, 349 to 352, &c.), may initiate, but not as a Government institution, a Central Association for the promotion of agricultural associations, credit unions, &c., its funds, including a Government grant-in-aid, being utilized in the manner above indicated.

The central association, when formed, should establish a thorough propaganda,* by means of conferences, lectures, leaflets and a cheap journal; it should appoint qualified organizers for local stimulation, assistance, and supervision, and should report annually, to a general meeting, the results of its work. Such an association has an open field before it for the development, not merely of agriculture, but of the agriculturist, and there appear absolutely no limits to the beneficent results of such an organization, working for the establishment of co-operative institutions, whether as Agricultural associations, pure and simple, or as savings and credit institutions.

The following pages of this chapter contain the laws and articles regulating various classes of Agricultural associations in France and Italy.

LAW AUTHORIZING PROFESSIONAL ASSOCIATIONS (FRANCE) 21st March 1884.†

1. (Repeals or renders inapplicable certain laws which forbade or forbid associations of the industrial or professional classes, either absolutely or except under the express authorization of Government.)‡

2. Syndicates or professional § associations, even though consisting of more than 20 persons of the same profession, of similar trades and callings, or of connected professions united for the production of particular articles, may be freely established without needing the authorization of Government.

3. Professional associations shall be exclusively devoted to the study and protection of their interests whether economic, industrial, commercial or agricultural. ‖

4. The founders of every professional association must register their articles, and the names of all those who, in any capacity, are charged with their management or conduct.

This registration shall take place at the local mayor's office, and shall be renewed at every change in the directors or articles. The mayor must communicate the articles to the public prosecutor.

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* The value of a persistent propaganda is not only seen in the facts of this chapter, but elsewhere. For example, on p. 179 of Vol. I, it is stated—under date about 1892 or 1893—that France is singularly behindhand in the matter of popular banks, and that, except in towns, such banks or loan societies (co-operative) hardly exist. But in 1889 was held the first French Congress of enthusiasts in the matter of popular credit and rural banks, and the successive congresses, held annually, have gradually developed the views of the attendant members towards Raiffeisenism as the true principal for village banks. It was, however, only about 1893, that this principle took complete hold of certain enthusiastic and devoted members, who then established a "Society for the Propagation of Popular Credit," the main principles of which appear to be those of Raiffeisenism. The society stimulates in various ways the establishment of rural banks and its monthly Bulletin is a record of progress. M. Louis Durand, the learned author of 'Le Crédit Agricole' (1891) and one who may justly be called the Raiffeisen of France, writes under date 17th February 1896, that the number of Raiffeisen societies in France has already reached "nearly 400, engaged in small but safe business and rendering great service to 'la petite culture.'" Such, then, is the result of only three years' actual work amidst a population believed hostile or unsuited to Raiffeisenism: 50 years of schemes resulted in nothing; half a dozen years of public discussion of which only three were devoted to an active propaganda, have resulted in the above splendid beginning.

† *See* Vol. I, pp. 219–20; also p. 127 and pp. 179–181.

‡ The laws of 1791 abolished trade and professional guilds and forbade their resuscitation and even the meeting of the members of a trade, industry, &c., for discussing their common interests: the provisions of that law are draconic and peremptory to a degree, and are the result of the reaction from the pretentions of the old close guilds which formed monopolist bodies, each claiming the right of determining who should or should not enter a particular trade. Hence the new law went to the opposite extreme and forbade any trade, &c., associations, and this restriction was in force till abolished by the present Act. Sections 291–94 of the Penal Code are now rendered inapplicable to societies under this law; section 291 is worth reproducing—

"No association of more than 20 persons, the object of which shall be the meeting of the members either daily or "on given days for devotion to religious, literary, political, or other subjects, shall be formed without the permission of "Government, and under such conditions as may seem good to the authorities to impose upon the society."

Industrial and trade associations are evidently not specially mentioned since they were, at the time the code was framed, absolutely forbidden. The section has been literally translated.

§ The French word 'profession' is less restricted than the similar English word, and embraces trades, callings, business.

‖ The almost accidental introduction of the word 'agricole' by which agricultural associations became possible, is noteworthy.

The provisions of the section are liberally interpreted as will be seen by the model articles, and by the work done by the societies. *See.* Vol. I, p. 219, &c.

The chief operations in which agricultural associations may engage under this law are (1) technical training; (2) agricultural education; (3) the establishment and working of fields for experiment and demonstration; (4) nurseries; (5) agricultural meetings (and shows); (6) the grant of prizes (for cattle, produce, good farming, &c.); (7) the purchase of stud cattle; (8) the training of apprentices; (9) the formulation and despatch to Government of opinions and resolutions; (10) reports and legal matters (*i.e.*, the law affecting agriculturists); (11) the establishment of friendly and provident societies; (12) the establishment of workshops, of co-operative stores, of credit societies, and of societies for assurance against hail and cattle disease, &c.; (13) provision for advice, conciliation and arbitration; (14) the purchase of genuine manures, seeds, and implements for the members at wholesale rates; (15) provision for enabling members to place their produce profitably on the market, and so forth.

It is intended shortly to issue a separate study on the Agricultural Associations of Europe.

All members of an association, who shall be charged with the conduct or management of an association, shall be French, and in possession of their civil rights.

5. Professional associations, regularly established under the present law, may freely unite into groups (se concerter) for the study and protection of their interests whether economic, industrial, commercial or agricultural.

These unions must give notice, according to the provisions of section 4, of the names of the several associations grouped in the several unions.

Unions cannot possess any immovable property, nor are they corporations which can appear in court (ester en justice).

6. Professional associations of masters and workmen are capable of appearing in court.

They may collect and utilize subscriptions. They shall not acquire any immovable property save such as shall be necessary for their meetings, for their libraries, and their technical schools.

They may, without further authorization, but in conformity with the law,* establish among their members offices for mutual benefit and pension (friendly and provident branches, caisses de sécours mutuels et de retraite).

They may freely institute and manage offices for supplying information relative to the demand for and supply of labour.

They may be consulted on all matters of dispute, and on all questions relating to their special object.

In matters of dispute the opinions of the associations shall be placed at the disposal of the parties who may take copies thereof.†

7. Every member of an association has the right of withdrawal at any moment, notwithstanding any agreement to the contrary, but without prejudice to the right of the association to collect the subscription of the member for the current year.

Any person retiring from an association retains his right of membership in the (affiliated) friendly or provident societies to which he may be a contributor.

8. When property has been acquired by an association contrary to article 6, the public prosecutor or any interested person may sue for declaring such acquisition to be null and void. Where such acquisition has been of necessity (as for a debt) the property shall be sold and the proceeds credited to the society; where it is the result of liberality (gift or legacy, &c.) it shall be handed over to the grantors, their heirs or successors.

9. In case of violation of sections 2, 3, 4, 5 and 6, the directors or managers may be prosecuted and fined; the courts may also, on the motion of the public prosecutor, decree the dissolution of the society and the nullity of the acquisitions mentioned in section 6.

False declarations in regard to the articles, to the names and status of the directors or managers may be punished with fine.

MODEL ARTICLES FRAMED FOR THE USE OF AGRICULTURAL ASSOCIATIONS UNDER THE FRENCH ACT OF 1884.‡

1. (Formation of the association.)

2. (Name, location and duration.)

3. *Members.*—Any person may be a member—
   (1) who is domiciled or owns property within (such and such an area), and who works such property either personally or by tenants or labourers;
   (2) who is a tenant of any description (fermier, colon, métayer) cultivating a farm in such area;
   (3) who is a labourer or farm servant working on any such farm;
   (4) who, being domiciled in the said area, carries on a business connected with agriculture, and with rural produce.

4. Candidates for membership must be recommended by two members to the committee who will decide regarding their admission.

5. (Similar to section 7 of the law.)

6. Bankruptcy, insolvency, punishment affecting a man's reputation, default in payment of subscription after three written demands, suffice for dismissal which will be ordered by the committee.

7. Objects of the association.

"The association has been established generally for the purpose of studying and protecting the "interests of the farming class, and for the following purposes in particular:—*Firstly*, to initiate "legislative reforms of an economic character, especially in matters relating to taxation upon land, "railway rates, commercial treaties, customs duties, tolls of fairs, &c.; *secondly*, to disseminate technical "instruction by lectures, pamphlets, the establishment of libraries and all other means including fields

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* That is, the general law of societies, and the special laws relating to benefit and friendly societies.

† These provisions grant certain privileges not apparently allowed at common law. The section is not restrictive; associations may and do engage in many operations not included in this section, but which come under the general provisions of section 3.

The function of the associations in forming friendly and other societies has been taken advantage of and developed in the new law (November 1894: see translation *supra s.v.* "Agricultural credit") for the encouragement of credit annexes to these associations. Their usefulness as sources of information and as consultative or experimental bodies will be unbounded.

‡ These are framed by the "Société des agriculteurs de France," a union of associations formed under section 5 of the law. Many associations make gratuitous servicesa necessary condition of membership. For the articles of a credit annex to one (Poligny) of these associations *see* the translation *supra s.v.* "Agricultural Credit."

This programme is, with a few slight additions, taken from the articles of the Agricultural Association of the District of Indre. *See* also note to section 3 of the law.

"for experiments and demonstration; *thirdly*, to promote and aid agricultural experiments in the use "of manures, machines, implements, and all other means calculated to economise labour; to reduce "the cost of production, and increase the volume of products; *fourthly*, to encourage, to create, and "to administer economic institutions, such as agricultural banks, societies for production and for sale, "mutual benefit societies, superannuation funds, insurance against accidents, sickness, cattle disease "and hail, offices for furnishing information with regard to the demand and supply of agicultural "produce of animals, seeds, machine, and labour; *fifthly*, to grant aid so far as its funds allow, to "members who, *qud* agriculturists, have suffered severe losses; *sixthly*, to act as an agency for the sale "of agricultural products, and for the purchase of manures, seeds, implements, cattle, raw material, "and manufactured commodities useful for agriculture; and this in such a way as to secure to "members the benefit of the discount on large purchases; *seventhly*, to supervise the consignments of "these articles made to members, or obtained by them, in order to guarantee genuineness and to "prevent fraud; *eighthly*, to collect information as regards local customs and methods, to give advice "and guidance upon all matters bearing upon agriculture, and to supply arbitrators and experts for "the settlement of disputes among agriculturists which would otherwise lead to litigation."

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9—21. *Management.*—(This is by a working committee, a board from the members of which the committee is appointed, and the general meeting. The several powers and duties of these authorities do not require translation; no condition is made in the model articles that services are to be gratuitous, but this seems to be implied, as the Secretary is expressly allowed his "actual office charges." Many associations lay down a distinct rule that "all services shall be absolutely gratuitous." The Board of 18 members is divided into three sections, amongst which are distributed the several subjects to which the association devotes itself; it is largely a consultative body, but especially charges itself, as a body, with conciliation and the decision of disputes. Conciliation is a matter to which attention is to be expressly devoted, in view to prevent the bad feeling and waste of money caused by litigation; *see* "rules for the conciliation committee" of the Agricultural Association of Cadillac, &c., translated below.)

22. *Funds.*—The funds of the association shall consist (*a*) of the regular subscriptions of the members; (*b*) any gifts or donations; (*c*) of any subventions which may be granted.

23. Every member must pay annually the fixed subscription.

(The remaining articles are not important.)

ARTICLES* OF THE AGRICULTURAL ASSOCIATION OF PERIGORD.†

1. (Name of the association.)

2. Any person may be a member who follows any branch of agriculture as cultivator, labourer, manager, or proprietor, who holds a farm either as proprietor or tenant, who manufactures or sells agricultural produce, raw or manufactured,‡ or who is a clerk or workman under such person, or whose studies, business, duty, or teaching is connected with agriculture.

3. (Candidates must be presented by two members.)

4. The objects of the association are as follows :—

(1) to promote intercourse between the members, and to watch over the general interests of agriculturists;

(2) to study and introduce to notice (présenter) all reforms, economic measures, and claims shown to be necessary and to support them before the public authorities;

(3) to study and encourage all possible improvements in agriculture, and to teach and widely diffuse the methods of the same;

(4) to assist by its knowledge and experience any members who apply to it for the solution of any agricultural questions;

(5) to settle, by amicable means, all disputes which may arise among members §, to supply the courts with lists of competent arbitrators and experts, and to assist in the defence of the interests of members by supplying opinions, with the reasons for the same;

(6) to verify the rules and customs obtaining in the district as regards the relations between proprietors, tenants, servants, labourers, traders, suppliers of cattle on the sharing system (à cheptel), &c., and to facilitate a good understanding between the several classes;

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* Article 7 of the model articles includes every variety of activity to which an agricultural association could devote itself, but it is impossible, at least at first, for any one society to take up the whole of so many and far reaching subjects. Moreover many of the subjects are those which appeal less to the small farmer with his few but distinct ideas than to the wide-eyed rural economist and reformer. Hence it is found in practice that few associations take up anything like so many subjects, and that they chiefly devote themselves to a few practical activities which meet the immediate wants of the peasants, *e.g.*, the supply of good manures, seed, implements, cattle, &c., the placing of produce on the markets, and so forth. The following, however, may be specially mentioned, viz., societies for the insurance of cattle, for mutual assistance by contributions of labour in case of distress, for conciliation, and for agricultural credit. The last named has been dealt with *s.v.* the credit annex to the Poligny association (*See* "Agricultural Credit" *supra*); societies for the mutual assurance of cattle against death by disease or accident—as distinguished from natural decay—are of too advanced a nature for the present condition of this country, so that a translation of these articles would be useless. A few rules from the articles of some other societies may, however, be given with advantage.

† This is a very large association with a wide area of operations and with very wide objects; it extends over a whole department (district).

‡ *E.g.*, sugar from beet root, &c. But the wording is very wide.

§ That is, among members not merely *qud* members, but as agriculturists and neighbours, and in the ordinary relations of life.

(7) to assist members generally by establishing an enquiry and registry office for the purpose of sales and purchases; *

(8) to improve the condition of all members by stimulating or assisting, if possible, the foundation of agricultural banks, of friendly and benefit associations, and of assurance and provident societies, and by helping and protecting the interests of heirs of any deceased member.

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7, &c. [The association extends over 50 cantons or groups of communes (villages), and has accordingly 50 sub-committees, one in each canton or section, besides major committees for each circle (taluk): each section elects a member to the General Board (chambre syndicale), which has therefore 50 elected delegates besides 50 founders; these latter are ordinary members who have paid a special fee of £4. The General Board represents the Association and works ordinarily by a Select Committee, but retains general control over the various objects of its business, for which purpose it delegates its powers to committees of special technical knowledge. The general provisions for the working of the several bodies do not need translation.

'The sectional or cantonal sub-committees are elected by general meetings of the members residing within the section.

There is a general meeting of all members once a year.

The subscription for ordinary members is 3 francs (Rs. 2) per annum: any member may retire when he chooses, and is liable to expulsion if he breaks any rule of good faith or honesty, or if he has not fulfilled his engagements to pay for goods supplied through the association, or if he supplies non-members with goods by means of the association. The managing committee must call up such member before dismissing him, and an appeal lies to the General Board, the decision of which is final and not susceptible of contestation before any court.† All members who shall be condemned to a punishment involving degradation shall *ipso facto* lose their membership.]

ARTICLES OF THE AGRICULTURAL ASSOCIATION OF DIE (DRÔME).

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2. The object of the association is to purchase in common ‡ raw material, especially manure, necessary for agriculture, with the view of getting it at a cheap rate. It proposes above all to prevent its members from being cheated in the purchase of manure. It will strongly endeavour to enlighten cultivators in the choice of fertilizers suitable to the nature of their soil and crops.

The association proposes, moreover—

(1) to study all economic measures and all legislative reforms which the interests of agriculture demand, to seek their realization through the public authorities;

(2) to stimulate and encourage experiments in cultivation, in the use of manures, of improved implements, and of other means for assisting labour for reducing the cost of cultivation, and for increasing the outturn;

(3) to establish an enquiry and agency office for the sale of (members') produce, for the supervision of deliveries (of goods ordered), for the purchase of seeds, implements, animals and other agricultural necessities, so that members may obtain the full benefit of the discount (obtainable on wholesale dealings).§

3—30. (The organs and methods of administration are of the usual character; the seven members of the Board of Management are wholly unpaid.)

31. *Purchases and sales.*—The President of the Association buys goods in his own name on behalf of the association, all members thereof being responsible in proportion to the amount of their annual subscription.

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* That is, where members can enquire current prices for sale and purchase, and can register and accept orders for goods.

† The legal basis for this condition which does not appear in the law, but is entered also in the model articles, is not apparent; presumably it is the result of the contract entered into by the member on joining the society. In India, the Contract Act considers as void an agreement excluding resort to the courts. In the British Friendly, Provident, and Building Societies' Acts however, it is expressly laid down that disputes may be settled according to the method prescribed in the articles, and that such method and the decision thereon shall be final, and not removable to any court or be restrainable by injunction.

‡ That is, the members give in their individual orders to the society's office, and the directors then give a joint wholesale order to the manure, &c., merchant. In this way not only is each member saved the labour of ascertaining and dealing with a distant merchant, but (1) he profits by the discount granted on wholesale orders, (2) he obtains a genuine article.

§ By means of this agency office members can not only ascertain the current prices, but also what demand there is for their produce and the names of persons requiring it. The society will only have on its books the names of respectable merchants or brokers, and these will be only too glad to place their orders with a society in order to be saved the trouble, cost and danger of dealing with a number of small and scattered farmers. The society thus performs, *gratis*, one of the most useful of functions, viz., that of the middleman, and being absolutely disinterested or interested only in the welfare of its members, that is of itself, it performs those functions not merely gratuitously but very heedfully. If an association of this sort could save its members only 10 per cent. on their purchases, and gain 10 per cent. for them on their sales—and these figures are well within the actual mark—the ryot would gain 20 per cent. profit above that which he would gain under the ordinary middlemen. In other words if associations of this sort were universal, the whole land-tax of this Presidency might easily be paid from the increased profits.

The introduction of the subject of Agricultural Associations in a treatise on Agricultural banks is thus seen to be strictly relevant; the village bank must be the village broker and middleman, for "a penny saved is a penny gained," and it is not merely by credit, but by the diminution of charges, by the increase of profit and by the stimulation of the saving of such profit that the village bank will assist its clientèle. To these considerations should be added those in Vol. I, page 179 *s.v.* France, and page 218.

32. The bills of merchants are drawn in the name of the President, and are paid by the society's bankers after being accepted by the President.

33. Every member must pay for his goods in cash when taking delivery on the day fixed for the purpose.*

In case of urgency the amount may be sent in advance to the President, in which case the cost of carriage (of the goods) must be borne by the consignee.

34. (Orders for manure to be given in due time, before fixed dates, on printed forms, so that they may be placed with vendors in a consolidated order.)

35. The orders † shall be put to auction or negotiated for in presence of the committee.

36. Goods shall be delivered free ‡ at the railway station. Three samples shall be taken from each truck load of manure, seed, &c., under the conditions prescribed in article 11§; one shall be sent to the chemical analyst, ‖ a second shall be kept by the President as evidence, and the third shall be sent to the vendor if he wishes for it.

37. (Rules provided where the member wishes to receive the manure, &c., direct from the vendor; in this case the stationmaster is asked to be present, instead of the President, at the taking of the samples.)

38. Legal proceedings against merchants for breach of contract shall be made in the name of the purchaser interested, but at the cost and under care of the association. No legal proceeding shall be taken without the consent of the Board, which shall discuss the matter and charge the President with laying information at the office of the public prosecutor.

39. Members are absolutely forbidden, under penalty of expulsion, to order or receive manure or other goods under their own name for non-members.

ARTICLES OF THE AGRICULTURAL ASSOCIATION OF THE CANTONS OF CADILLAC, &c. (GIRONDE).

(*Rules for the Board of Conciliation and Advice*).¶

1. The duties of the Board shall be—
   (1) to reply to legal questions submitted by members of the association;
   (2) to endeavour to reconcile members who are in dispute;
   (3) to supply arbitrators and experts for the settlement of matters in dispute between members when attempts at conciliation have failed.

2. Arbitrators and experts shall be chosen only from among members of the association.

3. (Composition and meetings of the Board.)

4. The duties of members of the Board shall be performed gratuitously. Members acting as arbitrators and conciliators may only be allowed the actual cost of travelling when it is necessary for them to visit a place in the execution of their duties as arbitrators; such charges shall be borne by the parties.

5. Every member of the association who desires to obtain advice on a legal matter affecting him, is entitled to present himself before any member of the Board and explain his difficulty on the sole condition that he proves his membership.

6. Should any dispute which might develop into litigation arise between members, the more prudent of such members should take the case before the association; he should state his claim briefly, whether orally or in writing, with the names, &c., of the opposite party, and a declaration of his desire to submit the matter to the Board of Conciliation and Advice.

7. The person appointed for that purpose will enter the claim in a special register, communicate it to the opposite party, and mention the name of the conciliator chosen by the plaintiff. Within ten

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* The association of Allex provides as follows:—

"35. In order that the President may have no difficulty and may avoid all pecuniary responsibility in dealing with "the merchant, every member must pay for his goods in cash when giving his order; such amount to be paid to the "treasurer. These conditions are absolute and not to be departed from under any pretext."

On the other hand, another Association provides as follows:—

15—17. Endeavours will be made to grant credit for as long as may be possible. All purchases (made by the society) being for cash, long term credit will be allowed only on payment of a 6 per cent. supplement as interest on the advance. Time may be granted for either two or four months from date of delivery, the time required being entered by the member on his order. In case of non-payment at due date the President shall at once proceed to recovery with all charges. Every member shall specifically bind himself to give, as a guarantee for the advance, a lien on his cattle up to the amount due.

† That is, the consolidated orders of the members shall be bid for or tendered for by tradesmen or merchants.

‡ Each member, of course, pay his share of the costs of carriage; another association enters the sum due by each member as follows: (1) the net cost of the goods; (2) the cost of carriage, (3) 1 per cent. commission to the society; (4) any charges for recovery of dues, stamps, demurrage, warehousing, packing, &c.

§ This provides that the President and two delegates shall, on the arrival of the goods, take the samples; the vendor or his representative shall be present if he so desires.

‖ In another associati on the cost of analysis is distributed as follows: on orders for 10,000 lb. of manure the vendor bears the charge (presumably by contract); from 2,000 to 10,000 lb. in equal shares by the vendor and by the association; under 2,000 lb. by the association.

¶ This is a special sub-committee appointed by the general meeting of the association; *cf.* the "probi-viri" of the Italian Popular banks.

days the defendant, if he agrees to have recourse to the Board, must accept the plaintiff's nominee and appoint one on his own part.

8. Should the two conciliators differ, they must appoint a third to decide between them; if they cannot agree as to the third person the Board of Directors will appoint one.

9. The disputants must appear before the conciliators at the appointed time and place.

10. The result of the meeting must be entered in the register mentioned in article 7, and, if necessary, the minutes of the proceeding shall be filed in the records of the association.

11. Should conciliation fail, the members of the Board may be appointed as arbitrators. In such case they are forbidden to accept any remuneration or honorarium.

12 and 13. (Should they be appointed not as judges but as experts or commissioners, whether by the parties or by the conciliators or arbitrators, in drawing up plans and statements, making surveys or measurements, or in other operations intended to facilitate the disposal of a dispute, the costs of such operations may be decreed and charged to the parties).

14. A member, who as above brings his claim before the association, shall pay at the time of making his claim, such sum as may be necessary for covering the cost of correspondence; account shall be rendered to him of the expenditure.

15. Due respect must be paid to the decisions of conciliators or arbitrators. A member who in this matter does not behave with due propriety will be liable, for the future, to be deprived of the assistance of the Board of Conciliation and Advice, and may even be removed from the association. The Board of Directors may adjudge one or other of the above penalties on the report of the Board of Conciliation when such Board has been specially charged to enquire into allegations made against a member, both the Board and the member being heard on the subject.

ARTICLES OF THE ASSOCIATION OF VINE-DRESSERS OF CHATEAURENAULT (INDRE-ET-LOIRE).*

1. The object of the society is to assist with labour vine-dressers who work either for themselves or for proprietors in case of such sickness or accident as prevents them from working at their vines.

The labour contributed by the members shall be gratuitous, and shall be for the benefit of the members assisted, who shall draw their wages (that is, if they are labourers) as if they had themselves done the work.

(Certain classes of work, pruning, digging and pitch-forking, &c., are alone to be contributed, not the tying up, &c., of the vines.)

Each labour day shall consist of eight hours; a single "corvée" shall consist of one day at most.†

The maximum assistance to be granted in any one year to any one member is as follows:—5⅝ acres (2½ hectares) of vineyard entirely dressed with the spade; 8¾ acres (3½ hectares) cultivated with the plough, and 10 acres (4 hectares) cultivated with the iron plough.

Aid shall only be granted from 1st December to 15th July, and only in case of misfortune occurring during such period.

2. Hindrance from work for four or five days shall not give claim to more than a single corvée, but in case of longer sickness or hindrance, the society shall grant corvées up to two-thirds of the period of inability. If the nature of the season requires it, the Board may decide to grant even a larger number of days of labour.

3. Should a member die, the society will carry on work in his vineyard ‡; wages due to him (by a proprietor) for such work shall be paid over to his widow or orphans, or shall be retained by the society in default of such heirs.

4. The society will not come to the aid of members whose illness are the result of intemperance or debauchery, nor will the society assist in cases of mere stoppage of work.

5. Members shall be active (or sharing) members and honorary members. Active members shall be actual vine dressers; honorary members may be owners, persons connected with the wine trade and others.

6. (The Board shall consist of ten members, part honorary, part active; honorary members have no vote.)

7. The Board shall organize the active members (workers) by sections and shall, if necessary, appoint overseers (surveillants) to such sections so that work may be carried out by due rotation and in an equitable manner.

8. (Omitted.)

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* This is a very peculiar association, which numbered about 200 members in 1889: it is strictly a mutual aid society, the members of which assist sick, &c., members by contributions in actual labour. The idea of the "corvée" or "prestation on nature" is common in Europe, and is not viewed with that sentimental hostility with which it is unnecessarily regarded elsewhere. *See* note to "Associations Syndicales" under the head of "Land Improvement Banks." The entry of these rules is not strictly within the limits of this study, but serves to give an idea of the usefulness of such associations in saving members from indebtedness and ruin by mutual aid in labour instead of by cash loans or credit.

† That is, apparently, no member shall be called on to give more than one day at a time, or for the benefit of one member. The word corvée may be translated 'unit of labour.'

‡ That is, his own vineyard or the one which he cultivates or in which he is employed.

9. Members hindered from work must inform the overseer of their section who shall communicate with the Board, on whose order the sick member shall be visited and reported on. The Board shall determine the aid to be given.

10. The members of the Board must see that the work is done properly. The society shall be held responsible for bad work, and members guilty of bad work may be expelled from the society.

11. (Omitted.)

12. When a corvée is required the commissioner (a member of the Board) will notify the syndic (another member) or overseer of the section, three days before the proposed date of corvée under penalty of fine ; that officer will, in turn, warn the members required for duty, two days beforehand under similar penalty. The members must state whether they will be able to give their services on the day fixed : in case of inability they may be allowed to do their share the day before, or by fit substitute. If the weather does not permit of execution of the corvée it may be postponed. Members who omit to render the required service shall be fined two francs.

13. Any member, who, on two consecutive occasions, fails without good excuse to respond to the call upon him, may be struck off the list of members and shall not be eligible for re-entry. A decision to this effect shall only be given by the general meeting.

14. Members summoned for service shall be present at sunrise on the appointed day at the required place. Any member who shall be late by one hour or more shall give his reasons, and if these are unsatisfactory shall be fined one franc.

15. (Rules for withdrawal.)

16. (Members who fail without good reason to attend at meetings shall be fined; *cf.* the rules of the Italian Popular banks.)

17. (No religious or political discussion shall be allowed, nor any violent or improper observations, under penalty of a fine.)

18. (There shall be no share capital, but every ordinary member must subscribe two francs, and an honorary member three francs annually for current expenses.)

19. The following persons shall not be admitted as members : (1) persons of improper life and morals ; (2) persons who have been expelled from the society ; (3) members who have done bad work (section 10) ; (4) hired servants who may not be considered eligible by the general meeting ; (5) vinedressers of less than 17 years and more than 50 years of age.

20. (Omitted.)

21.(Members of more than 60 years of age may receive only limited benefits in case of illnes and may be exempted wholly or partially from rendering service.)

22 and 23. (Omitted.)

24. These articles and any modifications thereof shall be submitted for the approval of the prefect (Collector) of Indre-et-Loire.

ARTICLES OF THE IRISH AGRICULTURAL ORGANIZATION SOCIETY (LIMITED).*

1. This society shall be called the " Irish Agricultural Organization Society, Limited."

2. The object of the society shall be to improve the condition of the agricultural population of Ireland by teaching the principles and methods of co-operation as applicable to farming and the allied industries, to promote industrial organization for any purposes which may appear to be beneficial, and generally to counsel and advise those engaged in agricultural pursuits. The society shall have power to do all things expedient for accomplishing all or any of such objects, including the carrying on of the occupation of accountants, publishers, commercial and general advisers.

5. The members of this society shall consist of such individuals, co-operative societies, or other corporate bodies as may be admitted by the Committee of Management of the Society for the time being (which until the first ordinary General Meeting of the Society its held after its registration shall be the seven members signing these rules). Application for admission shall be made only in the form prescribed by the rules of the society.

7. Every member shall hold one share in the society, and not more than 200 shares (each share is £1).

8. No share shall carry interest, or confer any right to dividend. Any profits earned shall be used for the purposes of the society.

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* The 46 articles are mostly of an ordinary description and give no idea of the work or methods of the society. For an account of its objects and *modus operandi* see the introductory article to agricultural associations *supra*. Hence only one or two of the articles are here printed. The society is based upon and registered under the " Industrial and Provident Societies Act," by the provisions of which it is accordingly guided (*see* the Act as printed elsewhere in this volume).

ARTICLES OF A CO-OPERATIVE SOCIETY (ITALY) FOR THE ACQUISITION OF RURAL NECESSITIES AND THEIR USE IN COMMON, FOR THE JOINT SALE OF PRODUCE, &c.*

1. (Name, &c., of the association.)

2. The association may adopt one or more of the following objects :—

(*a*) the acquisition on its own account or for others † and the distribution to its members or to agriculturists ‡ in general, of goods, produce, implements, machines, live or dead stock, required for agriculture or for consumption by agriculturists ;
(*b*) the sale whether for the common account or for third parties of agricultural produce whether of members or of agriculturists generally ;
(*c*) the opening of suitable places for the sale of agricultural produce ;
(*d*) the establishment of depôts, shops or canteens for the purchase and sale of agricultural produce ;
(*e*) partnership with other societies or persons for the sale or exportation of agricultural produce ;
(*f*) the purchase of machines, implements, &c., to be lent or hired out ;
(*g*) the establishment of factories or workshops for working up agricultural produce § ;
(*h*) the facilitation of agricultural credit among its members ;
(*i*) the manufacture on account of members or of third parties, of goods and products required in agriculture and allied industries ;
(*j*) the making of tests, analyses, and experiments, and the establishment of courses of study and schools in the interests of agriculture ;
(*k*) agricultural insurance within the district.

3. The association may adopt other subsidiary objects directed towards the improvement and well-being of agriculture and the agricultural classes. For each object, principal or subsidiary, a separate fund with separate accounts shall be maintained.

The directors shall determine whether and to what extent non-members may share in the operations of the society.

4. (The association may establish branches which shall be constituted with the view of subsequent independence ; agencies may also be appointed.)

Capital.

5. The capital shall consist (*a*) of the shares subscribed for by members, each share being of the value of £1 ; (*b*) of the reserve ; (*c*) of any special funds established for particular objects.

6. The amount of the capital and number of shares shall be unlimited. Shares shall be issued in separate series of 500 each. The directors shall, subject to discussion at the general meeting, determine the issue, price, and mode of payment of each series.

7. On each share shall be paid an entrance fee of *5d.*

The directors may, in order to develop the work of the society, borrow funds which may, by vote of the general meeting, be secured by a special charge upon the own capital of the society.

The directors may issue interest bearing bonds of fixed term, and may accept deposits whether savings or on account current.

8. The directors may invest the funds of the society in State or State guaranteed paper. Not more than 10 per cent. of the share capital and 20 per cent. of the reserve may be invested in shares of co-operative societies having similar objects.

Members and shares.

9. Candidates for admission must apply in writing to the directors, declaring therein that they will be bound by the articles, rules, and resolutions of the association. The good faith of each candidate must be vouched for by two members who must countersign the application.

10. Co-operative and friendly societies and corporate bodies may be registered as though members, and enjoy the privileges of such, but their delegates cannot be appointed to any office, in the society.

Members shall consist solely of the proprietors of farms, tenant farmers and cultivators, within the district, save only such societies as become members.

Persons under interdict, incapables, and bankrupts, may not be admitted as members, nor can they obtain shares by transfer except under judicial order ; any shares so obtained must be disposed of as in section 13.

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* These articles are the model articles proposed in Italy for agricultural associations such as those established in France under the law of 1884, or in Ireland under the "Industrial and Provident Societies' Act;" *see* introductory note to "Agricultural Associations" in this volume.

† This is a departure from strict co-operation ; societies usually recognize and deal with their own members and no others : to obtain the benefits of the society a man must usually become a member. But as these associations do not limit the sale-price of goods supplied, to the prime cost *plus* actual expenses, it may be intended that goods should be sold at a profit ; hence outsiders are allowed to purchase so as to increase profits. But no rule is entered on this point, or as regards commissions on business done for outsiders.

‡ Presumably the word agriculturist may be liberally interpreted so as to include those connected with agriculture or with rural industries dependent on or supplementary to agriculture.

§ *e.g.*, Co-operative dairies for making butter, cheese, &c.

11. [The directors decide regarding admissions, with appeal to the arbitration committee (probiviri): an admitted member must sign the register as required by the law.]

12. (Grants the usual rights to members.)

13. (No member may have shares beyond the value of £200 : any excess due to him by succession or court decree must be disposed of by him within two years ; failing such disposal, directors may suspend the payment of interest, and sell the surplus shares for the benefit of the holder.)

14. Directors shall expel any member who may have obliged the society to go to law with him for the fulfilment of his obligations, or who has been declared incapable of holding public office, or who has been sentenced to rigorous imprisonment or simple imprisonment for not less than three years, or who has been found guilty of corruption, forgery, theft or fraud, or who has become incapacitated as under article 10, or who has committed any act deemed by the directors to be dishonourable. Directors may also expel any member who is in arrears without good cause for three successive instalments of his subscription, or who in any way disturbs progress or causes loss.

Appeal lies to the arbitration committee. Members expelled are entitled to the value of their shares.

15. (In case of the death of a member, his heir must sell the shares unless he is himself a member or candidate for admission.)

16. Shares are personal and cannot be transfered, pledged or charged without the consent of the directors. But they are held to be charged in favour of the society for all obligations of a member towards the society: each share shall be endorsed to this effect.

17. (The society may sell the shares of a member who is in default as regards the society.)

18. (Shares to bear interest : they may be paid off if the assets permit.)

19. (Omitted.)

Balance-sheet, profits, savings and reserve.

20. (Contents of the balance-sheet.)

21. Profits shall be divided as follows :—5 per cent. to the reserve ; 10 per cent. as depreciation on goods and plant and 5 per cent. on immovables ; so much, if available, as shall allow a 6 per cent. dividend on the shares so long as the reserve shall not be equal to the paid up capital, and 8 per cent. afterwards ; 5 per cent. shall be allotted for the promotion of thrift and co-operation in general and for promoting thrift among the staff of the society ; half of the remainder shall go to the reserve and half shall be credited as savings to the members in proportion to the amount of their dealings with the society * ; the amount thus credited to members shall take the form of shares until the maximum share-value shall have been reached ; thereafter of cash, or of interest bearing bonds, or of shares of other co-operative societies working for the benefit of agriculture and rural property.

No dividend shall exceed 8 per cent.

22. The reserve shall consist (*a*) of the items mentioned in article 21 ; (*b*) of the entrance fees ; (*c*) of any premium upon the issue of shares ; (*d*) of all receipts and donations, and of any increment in the value of securities or property owned by the society.

Authorities.

23. The authorities of the society are (1) the general meeting ; (2) the board of directors ; (3) the manager with the necessary staff ; (4) the committee of supervision (sindaci) ; (5) the committee of arbitration (probiviri).

(Articles 24 to 42 on the above authorities do not require translation, but article 33 is as follows:—

The duties of directors shall be honorary (performed gratuitously—sono gratuite), but the general meeting may allow an annual grant to not more than three (out of the nine) directors in cases where special duties have been assigned to them).

43. The committee of supervision shall consist of five members, viz., three working and two supplementary, who must be elected from among the members. Their duties will be honorary (gratuite).

The committee will see that the articles, rules and resolutions are strictly observed, and will also carry out all the duties assigned to such committees by section 184 of the Code of Commerce.†

They may do duty by weekly turns under rules to be established in the business regulations of the society.

They may not be related to the directors within the fourth degree of consanguinity or affinity.

44. The committee of arbitration consists of three members elected by the general meeting ; they shall hold office for three years, be re-eligible, and shall not be entitled to any remuneration.

The committee will decide without appeal all disputes between the society and members relative to the interpretation of the present articles, and on such matters as shall be referred to them by special rules or resolutions. Also any dispute between members and the executive as regards transactions with the society when both parties mutually submit the case for formal arbitration.

45. The directors and manager must furnish the committee with all requisite information.

The committee may act also as conciliators.

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* This last is a well-known rule in co-operative distribution societies, beginning with the 'Rochdale Pioneers.'

† *See* for this and other matters translation of the sections relating to these committees elsewhere in this volume.

LAW RELATING TO LAND IMPROVEMENT ASSOCIATIONS (ASSOCIATIONS SYNDICALES), FRANCE.*

1. The object of syndical associations of proprietors shall be the execution and maintenance of the following works:—

(1) protection against floods;
(2) the cleansing; deepening and improvement of non-navigable water channels and drainage works;
(3) the drainage of marshes;
(4) the digging of salt-water channels from the sea to salt marshes;
(5) the hygienic improvement of damp and unhealthy localities;
(6) the sanitary improvement of towns, villages, and hamlets;
(7) the opening, widening, &c., of public streets and other public urban and village improvements;
(8) irrigation and the reclamation of low-lying lands;
(9) drainage;
(10) roads and all other classes of agricultural improvement of a collective character.

2. These associations are either free or authorized.

3. They appear in Courts by their syndics, and may acquire, sell, and otherwise dispose of property.

5—8. (Deal with free associations which have no special privileges, and cannot enjoy the powers entered in section 3 unless their formation has been duly notified in the local gazette. They may be changed into authorized associations.)

9. Proprietors interested in works mentioned in the first six sub-sections of section 1 may, by a decree of the prefect (Collector), form authorized associations either upon their own initiative or on that of the mayor or prefect. Proprietors interested in works mentioned in the last four sub-sections of section 1 may similarly unite when the work has been recognized by Government order as one of public utility: in these latter cases no enterprise can be undertaken without previous sanction from the prefect which will not be granted until such amount as may be needed by way of compensation to parties affected, has been deposited, and guarantees given by the association that the work will be carried out and all costs and damages paid.

10. (The prefect shall cause enquiry to be made regarding the plans and methods of the proposed association: a general meeting of the proprietors interested is to be held and written consent of such as agree to the proposals shall be taken. The prefect shall not authorize any association unless two-thirds—or in cases 6 to 10 of section 1, three-fourths—of the proprietors holding from one-half to three-fourths of the land affected, agree to join the association. Those who do not join the association must, within one month, give notice in writing to the prefect that they intend to hand over their lands which lie within the sphere of operation, upon payment of proper compensation to be settled by the usual laws.)

15. The subscriptions of or levies from the members shall be collected upon a list drawn up by the syndics of the association, approved and given authority by the prefect. They shall be recoverable as though direct State taxes.

16. Disputes regarding the area of operation, the division of the lands into classes, the appointment and collection of the quotas of the expenses and the execution of the work, shall be settled by the prefect's council, with appeal to Government.

17. No proprietor who has become a member shall, after the expiry of four months from the date of issue of the first list of quotas, dispute his position as member or the validity of the association.

19. Disputes as to easements lawfully arising from the operations of the association shall be disposed of (by the Cantonal juge de paix, in the first instance).

23. When an association is granted a subvention by the State, by the district, by the commune, or by a Chamber of Commerce, the respective authorities shall have the right of nominating syndics in the proportion which the subvention bears to the total capital of the association.

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* Only a few sections will be translated, with a view of showing the object of such associations, the mode of their formation, and the privileges granted to them. Their name is derived from the fact that their affairs are managed by Trustees or Managers (Syndics). Their main object is the improvement of the land, not merely agriculturally, but hygienically, by irrigation, drainage, plantation and the like.

The current law is that of 21st June 1865, as modified by that of 22nd December 1888.

The "Crédit Foncier" is expressly authorized to lend funds to such associations, and it is probably through them, as in Germany, that many small peasants are affected by land banks: the banks lend to the associations on the joint credit of the members, who individually benefit by the common project financed by the bank.

CHAPTER V.—SAVINGS BANKS.

LAW OF SAVINGS BANKS, GREAT BRITAIN AND IRELAND.

26 & 27 VICT., CAP. 87 (1863).*

* * * * *

2. And whereas it is expedient to give protection to such savings banks already established as aforesaid and the funds thereof, and to afford encouragement to the formation and establishment of like institutions: be it therefore enacted, that if any number of persons have formed or shall form any society in any part of the United Kingdom of Great Britain and Ireland for the purpose of establishing and maintaining any institution in the nature of a bank to receive deposits of money for the benefit of the persons depositing the same, to accumulate the produce of so much thereof as shall not be required by the depositors, their executors or administrators, at compound interest, and to return the whole or any part of such deposit and the produce thereof to the depositors, their executors or administrators (deducting out of such produce so much as shall be required for the necessary expenses attending the management of such institution), but deriving no benefit whatsoever from any such deposit or the produce thereof, and shall be desirous of having the benefit of the provisions of this Act, such persons shall cause the rules and regulations established or to be established for the management of such institution to be entered, deposited, and filed in manner hereinafter directed, and thereupon shall be deemed to be entitled to and shall have the benefit of the provisions contained in this Act.

* * * * *

6. No savings bank, subject to the proviso hereinafter contained with respect to the branch offices or local receivers of any savings bank, shall have the benefit of this Act unless in the rules and regulations for the management thereof it shall be expressly provided—

(1) That no person or persons being treasurer, trustee, or manager of such savings bank, or having any control in the management thereof, shall derive any benefit from any deposit made in such savings bank, save only and except such salaries and allowances or other necessary expenses as shall according to such rules and regulations be provided for the charges of managing such savings bank, and for remuneration to officers employed in the management thereof, exclusive of the treasurer or treasurers, trustee or trustees, manager or managers, or other persons having direction in the management of such savings bank, who shall not directly or indirectly have any salary, allowance, profit, or benefit whatsoever therefrom beyond their actual expenses for the purposes of such savings bank:

(2) That not less than two persons, being either trustees, managers, or paid officers appointed for that specific purpose, and where two only, except in the case of savings banks which are open for more than six hours in every week, one such person to be a trustee or manager, be present on all occasions of public business, and be parties to every transaction of deposit and repayment so as to form at least a double check on every such transaction with depositors:

(3) That the depositors' pass-books shall be compared with the ledger on every transaction of repayment, and on its first production at the bank after each twentieth day of November:

(4) That every depositor in a savings bank established under this Act shall once at least in every year cause his deposit book to be produced at the office of the said savings bank for the purpose of being examined:

(5) That no money be received from or paid to depositors except at the office or branch offices where the business of the savings bank is carried on under the authority of the board of managers, and during the usual hours for public business:

(6) That a public accountant or one or more auditors be appointed by the trustees and managers, but not out of their own body, to examine the books of the bank, and to report in writing to the board or committee of management the result of such audit, not less than once in every half-year, also to examine an extracted list of the depositors' balances, made up every year to the twentieth day of November, and to certify as to the correct amount of the liabilities and assets of the bank:

(7) That a book containing such extracted list of every depositor's balance, omitting the name, but giving the distinctive number and separate amount of each, and showing the aggregate number and amount of the whole checked and certified by such public accountant or auditors, be open at any time during the hours of public business for the inspection of every depositor as respects his own account, to examine his own deposit book therewith, and the general results of the same:

(8) That the trustees and managers or committee of management shall hold meetings once at least in every half-year, and shall keep minutes of their proceedings in a separate book provided for that purpose:

(9) Provided that where savings banks are established with agents or local receivers elsewhere than at the head office, the rules shall be provided for the due receipt of and accounting for all monies by such agents or local receivers on account of such savings banks respectively, and also for the presence of a second party in every transaction when money is paid or received, and also for the periodical examination of the depositors' books with the ledger once at least every year.

(10) The trustees and managers of every savings bank shall transmit weekly returns to the commissioners for the reduction of the national debt, in such form and giving such particulars as the said commissioners may direct, showing the amounts of the week's transactions of such savings bank, and the amount of the cash balances remaining in the hands of the treasurer, or any other person on account of such savings bank.

* * * * *

8. (Treasurers and other officers entrusted with the receipt or custody of money to give security.)

* * * * *

* Only a few sections or parts of sections have been extracted and printed.

11. No trustee or manager of any savings bank (subject to the provision hereinafter contained in respect to savings banks in Ireland) shall be personally liable, except—

(1) For monies actually received by him on account of or for the use of such savings bank, and not paid over and disposed of in the manner directed by the rules of the savings bank:

(2) For neglect or omission in complying with the rules and regulations required by this Act to be adopted as hereinbefore is provided in the maintenance of checks, the audit and examination of accounts, the holding of meetings and keeping minutes of proceedings thereat:

(3) And also for neglect or omission in taking security from officers as is hereinbefore provided.

12. (Trustees or managers in Ireland may, by declaration in writing deposited with the national debt commissioners, limit their responsibility to a particular amount not being less than £100. But such limitation shall not extend to sums actually received by him on account of the bank, for all of which a trustee is personally liable.)

13. (Treasurer, trustees, &c., and their heirs or executors, &c., to account for and deliver up all effects of the bank in their custody whenever required by the other trustees.)

14. If any person already appointed or who may hereafter be appointed to any office in a savings bank, and being intrusted with the keeping of the accounts, or having in his hands or possession by virtue of his said office or employment any monies or effects belonging to such savings bank, or any deeds or securities relating to the same, shall die, or become a bankrupt or insolvent, or have any execution or attachment or other process issued against his lands, goods, chattels, or effects, or make any assignment thereof for the benefit of his creditors, his executors, administrators, or assignees, or other persons having legal right, or the sheriff or other officer executing such process, shall, within forty days after demand made by two of the trustees of the said savings bank as aforesaid, deliver and pay over all monies and other things belonging to such savings bank to such person as the said trustees shall appoint, and shall pay out of the estates, assets, or effects of such person all sums of money remaining due, which such person received by virtue of his said office or employment, before any other of his debts are paid or satisfied, or before the money directed to be levied by such process as aforesaid is paid over to the party issuing such process, and all such assets, lands, goods, chattels, estates, and effects shall be bound to the payment and discharge thereof accordingly.

* * * * *

16. (Trustees may receive money from depositors to be applied or invested *otherwise* than as mere deposits in the savings bank. This should be provided for in the articles of the bank.*)

* * * * *

19. The said commissioners shall cause all the monies paid into the banks of England and Ireland respectively, and placed to their account in pursuance of the provisions of this Act, to be invested from time to time in their names, and to be carried to the account hereinbefore provided, under such regulations as the said commissioners shall direct, in the purchase of bank annuities or exchequer bills or Parliamentary securities of whatsoever kind created or issued, or which may hereafter be created or issued, under the authority of any Act or Acts of Parliament for the interest on which provision is made by Parliament, or any stock or debenture or other securities expressly guaranteed by authority of Parliament, and the interest which shall from time to time arise and become due thereon shall in like manner be invested in the purchase of such Government annuities or exchequer bills or securities aforesaid.†

* * * * *

33. It shall be lawful for the trustees or treasurers of any friendly society legally enrolled or certified in the manner required by the Acts in force relating to friendly societies to invest any sum of money the property of such society, without restriction as to amount, into the funds of any savings bank established under the provisions of the said hereby repealed Acts or of this Act, and which shall be willing to receive the same, under such terms and conditions as shall be specially provided for that purpose by the rules, orders, and regulations of such savings bank.

34. The receipt of the treasurer, trustee, or other officer for the time being of any such charitable or provident institution or society, penny savings bank, or friendly society, for any money paid according to the requisition of such treasurer, trustee, or other officer apparently authorised to require such

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* This power has now been limited by section 10 of the Act of 1891, which is as follows:—

10. (Enacts the following restrictions to section 16 of the principal Act), viz.—

(*a*) (an investor must have deposits of £50 in the bank);

(*b*) (the total amount to be invested for any one depositor shall not exceed £500);

(*c*) (the money received for investment shall not be invested in any manner not for the time being authorized by law in the case of investment by trustees, and shall not be invested on mortgage of land or any interest in land;

(*d*) (the accounts of the bank shall be kept so as to distinguish between the receipts and expenditure on account of special investments, and the receipts and expenditure on account of the general business of the bank;

(*e*) (the assets of the bank in respect of ordinary deposits shall not be chargeable with any part of the expenditure on account of special investments, and shall not be liable for any loss or deficiency in respect of special investments:

(*f*) (the security required by section 8 of the Trustee Savings Banks Act, 1863, as amended by this Act, shall comprise separate security in respect of the amount received on account of special investments:

(*g*) (the annual statement required by section 55 of the Trustee Savings Bank Act, 1863, shall contain, or be accompanied by, such particulars with respect to the special investments of the bank as the national debt commissioners direct:

(*h*) (the rules of the bank shall provide to the satisfaction of the inspection committee for the audit, examination, and publication of the investment accounts for the safe custody of the securities held by the bank on account of special investments, and the security to be given by officers of the bank in respect of the amount received on such account:

(*i*) (the power to make special investments shall not be exercised by any bank unless the bank has exercised the power before the first day of June one thousand eight-hundred and ninety-one. (In other words the power of making such investments is forbidden to any new banks.)

† This section limits the investment by trustees of savings deposits; only Government securities are allowable. the French law is similar, and these two countries and their dependencies stand practically alone in this limitation.

payment, shall be a sufficient discharge for the same, and the savings bank paying such money, and the trustees, managers, and officers thereof, shall not be responsible for any misapplication or for want of any authority of the person or persons requiring or receiving payment of such money.

* * * * *

48. If any dispute shall arise between the trustees and managers of any savings bank and any individual depositor therein, or any executor, administrator, next-of-kin, or creditor or assignee of any depositor who may become bankrupt or insolvent, or any person claiming to be such executor, administrator, next-of-kin, creditor, or assignee, or to be entitled to any money deposited in such savings bank, then and in every such case the matter in dispute shall be referred in writing to the barrister-at-law * appointed under the said hereby repealed Acts or this Act, who shall have power to proceed *ex parte* on notice in writing to the said trustees or managers left or sent through the post-office by the said barrister to the office of the said savings bank, and whatever award, order, or determination shall be made by the said barrister shall be binding and conclusive on all parties, and shall be final to all intents and purposes, without any appeal.

49. On any such reference it shall be lawful for the said barrister and he is hereby authorised to inspect any book or books belonging to the said savings bank relating to the matter in dispute, and to administer an oath to any witness appearing before him, or to take the affirmation in cases where affirmation is allowed by law instead of oath; and if upon such oath or affirmation any person making the same shall wilfully and corruptly give any false evidence, every person so offending shall be deemed and taken to be guilty of perjury, and shall be prosecuted and punished accordingly.

50. (All powers of attorney and receipts relating to deposits, and all instruments or documents whatever made or issued *in pursuance of the Act*, are exempt from stamp duty.)

THE SAVINGS BANKS AMENDMENT ACT.

54 & 55 VICT., CAP. 21 (1891).†

* * * * *

2. (1) There shall be established an inspection committee of trustee savings banks.

(2) A paid officer of a trustee savings bank shall not be eligible to be a member of the committee.

(3) The committee may, with the approval of the national debt commissioners, modify a scheme framed under this section.

(4) The committee may, with the approval of the Treasury, appoint such officers as may appear to be required for the execution of the duties of the committee under this Act.

(5) The members of the committee shall be entitled to such remuneration by way of fees or otherwise as may be approved by the Treasury.

(6) Every scheme made in pursuance of this section and every modification thereof shall be laid before both Houses of Parliament.

3. (1) The inspection committee may appoint persons to inspect the books and accounts of trustee savings banks, and to examine and ascertain and report to the committee from time to time with respect to each bank, whether the bank has complied with the requirements of the Acts and rules relating to the bank as to the security to be taken from officers, the accounts of the bank and the conduct of its business, and whether any portion of the expenditure is excessive or unnecessary; and every trustee savings bank shall give all due facilities for enabling any such inspection or examination to be made.

(2) If on the report of any such person it appears to the committee that any trustee savings bank has made default in giving such facilities or complying with any of the requirements aforesaid, or that any portion of the expenditure of the bank is excessive or unnecessary, the committee shall call upon the bank to remedy the default, or, as the case may be, to reduce the expenditure, within a specified time, and if the default is not remedied or the expenditure is not reduced within that time, the committee shall report the matter to the national debt commissioners.

(3) Thereupon the national debt commissioners may in their discretion either close the account of the trustees of the bank, in which case the provisions of section 55 of the Trustee Savings Banks Act, 1863, shall apply as in the case of neglect or refusal to obey any orders or directions given by the commissioners, or report the matter to the Treasury with a view of action being taken under section 2 of the Trustee Savings Banks Act, 1887, or adopt both of these courses.

(4) The trustees of every trustee savings bank shall, on the requisition of the committee, supply the committee with a copy of the pass-book in use in the bank, of the annual general statement of the accounts of the bank, and of the rules of the bank, and of any amendments thereof.

(5) If in the opinion of the committee the rules of any such bank are insufficient for the purpose of maintaining an efficient audit, the bank shall with all convenient speed make such additional rules as may, in the opinion of the committee, be required for the purpose.

(6) If the bank do not, within a time specified by the committee from the date of being required to make any such rules, comply with the requirement, the committee may make such rules, and shall submit the rules so made to the Registrar of Friendly societies, to be certified by him; and, when so certified, they shall be binding on the trustees.

(7) The committee shall annually report their proceedings under this Act to the national debt commissioners, and this report shall be laid before Parliament.

(8) The committee may, with the approval of the national debt commissioners, make rules for regulating the duties of persons appointed by the committee under this section.

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* The barrister-at-law is now the Chief Registrar of Friendly, &c., Societies. † Only partially printed.

4. (The expenses of the committee are to be paid up to a certain amount from the surplus in the hands of the national debt commissioners, and any further amount by contributions from the several savings banks.)

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7. (The office of trustee *ipso facto* to become vacant if the trustee is continuously absent from duty for 12 months.)

8. The annual statement required by section 55 of the Trustee Savings Banks Act, 1863, to be made by the trustees and managers of every trustee savings bank shall be in such form and contain or be accompanied by such particulars as the national debt commissioners direct. A similar statement shall be sent to the inspection committee each year at the same time.

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13. Nothing in section 40 of the Bankruptcy Act, 1883, shall affect the priority given by section 14 of the Trustee Savings Banks Act, 1863, to the debts mentioned in that section.

THE BANKING LAW OF THE STATE OF NEW YORK.*

Article III, Savings Banks.

Section.

100. Incorporation.
101. Notice of intention to organize.
102. Filing of certificate by superintendent.
103. Examination by superintendent.
104. Certificate of authorization.
105. When persons named in certificate become a corporation.
106. Must begin business within one year.
107. Trustees and their powers.
108. By-laws.
109. Meeting of trustees; quorum.
110. Vacancies.
111. Security may be required and salaries fixed.
112. Dividends, compensation and loans to trustees prohibited.
113. Repayment of deposits; regulations; limitation.
114. Deposits of minors, and trust deposits.
115. Wife witness against husband; claimants may be interpleaded
116. In what securities deposits may be invested.
117. Limitation as to real property.
118. Available fund for current expenses; how loaned.
119. Temporary deposits.
120. Personal security prohibited; loans on bond and mortgage.
121. Mortgaged property to be insured.
122. Restrictions on methods of doing business.
123. Rate of interest; extra dividends.
124. Per cent. of surplus, how determined.
125. Compensation of officers.
126. No other report or inspection required.
127. Proceedings against delinquent corporations.
128. Examination of vouchers and assets by trustees.
129. Expenses to be paid.
130. Debts due savings banks from insolvent banks preferred.
131. Advertisements of unauthorized savings banks prohibited.
132. Charters to be conformed to this chapter.
133. Savings bank voluntarily closed.
134. When dissolution effected.
135. Deposit of unclaimed moneys.

100. *Incorporation.*—(Thirteen residents in a county may form themselves into a savings bank by a certificate (memorandum) of association as trustees; copies to be deposited with the authorities including the superintendent of banks.) †

101. *Notice of intention to organize.*—(Notice must be duly published in the newspapers, and expressly sent to any other savings bank in the country.)

102. *Filing of certificate by superintendent.*—(Superintendent may refuse to file the memorandum if not in proper form or not duly notified: otherwise he shall "file it for examination.")

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* This law forms Article III of Chapter XXXVII of the General Laws of the State of New York. This chapter known as 'the Banking law' of the State, was entirely revised and consolidated in 1892, and represents, therefore, a very modern conception of banking law in a great industrial and commercial State.

The chapter contains eight articles, viz., general provisions, banks (ordinary), savings banks, trust companies, building and mutual loan corporations (companies), co-operative loan associations, mortgage, loan, and investment corporations, and safe deposit companies.

All classes of banking, &c., association mentioned in Articles 2 to 8 are subject to the provisions of Article 1: hence savings and all other banking institutions are under the supervision of the 'Superintendent of banks.' Article 1 will be found below in Chapter VII. The savings banks law of New York must be read with that article.

The New York savings banks under this law are those known as 'Trustee savings banks', and they have, within certain limits laid down in the law, the right of free disposal of their funds.

The sections are not always excerpted in full; some are merely abstracted, others omitted.

† *See* foot-note to the heading of this law and Article I printed in Chapter VII. Miscellaneous.

103. *Examination by superintendent.*—The superintendent shall thereupon ascertain from the best sources of information at his command:

(1) Whether greater convenience of access to a savings bank will be afforded to any considerable number of depositors by opening a savings bank in the place designated in the certificate.

(2) Whether the density of the population in the neighbourhood designated for such savings bank, and in the surrounding country, affords a reasonable promise of adequate support to the enterprise.

(3) Whether the responsibility, character and general fitness for the discharge of the duties appertaining to such a trust of the persons named in the certificate, are such as to command the confidence of the community in which such savings bank is proposed to be located.

104. *Certificate of authorization.*—(The superintendent will, if satisfied on the matters mentioned in section 103, authorize the starting of the bank, and will send a copy of his authorization to the county clerk: if he refuses authorization, he will similarly give notice to the county clerk.)

105. *When trustees become a corporation.*—(On receipt of the superintendent's authorization the proposed trustees shall be deemed a corporation and may transact the business of a savings bank: the name and address of each of the officers of such bank must first be sent to the superintendent.)

106. (Omitted.)

107. *Trustees.*—(There must be at least thirteen trustees, all residents of the State.)

108 and 109. (Omitted.)

110. *Vacancies among trustees.*—(A trustee ceases, *ipso facto*, to be such, if he becomes trustee, officer, or employé of any other savings bank, or if he borrows, directly or indirectly any of the funds of his savings bank, or if he becomes surety for any loan from such bank, or if he neglects, without permission, the duties of trustee for six successive months.)

111. (Omitted.)

112. *Dividends, compensation and loans to trustees prohibited.*—No trustee of any such corporation shall have any interest, direct or indirect, in the gains or profits thereof, nor as such, directly or indirectly, receive any pay or emolument for his services, except as hereinafter provided; * and no trustee or officer of any such corporation shall directly or indirectly, for himself or as an agent or partner of others, borrow any of its funds or deposits, or in any manner use the same except to make such current and necessary payments as are authorized by the board of trustees; nor shall any trustee or officer of any such corporation become an indorser or surety, or become in any manner an obligor, for moneys loaned by or borrowed of such corporation.

113 to 115. (Omitted.)

116. † *In what securities deposits may be invested.*—(Deposits may be invested in stock or other interest bearing paper of the United States of America, in paper of the New York State, in paper of any other State of the United States of America which for ten years has not made default in payment of principal or interest of its debts, in certain municipal and local board stock, in bonds and mortgages on unincumbered real property situated in this State, worth at least twice the amount loaned thereon. Not more than sixty-five per cent. of the whole amount of deposits shall be so loaned or invested. If the loan is on unimproved and unproductive real property, the amount loaned thereon shall not be more than forty per cent. of its actual value. No investment in any bond and mortgage shall be made by any savings bank, except upon the report of a committee of its trustees charged with the duty of investigating the same, who shall certify to the value of the premises mortgaged or to be mortgaged according to their best judgment, and such report shall be filed and preserved among the records of the corporation, in real property subject to the provisions of the next section.

117. *Limitation as to real property.*—(A savings bank may only hold real property (1) for business premises up to the value of fifty per cent. of its net surplus; (2) by purchase at sales upon foreclosure of mortgages owned by it, or at judicial sales upon decrees for debts due to it; all property under (2) must be sold within five years unless the superintendent of banks extends the time.‡

118. *Available fund for current expenses how loaned.*—The trustees of every such corporation shall, as soon as practicable, invest the moneys deposited with them in the securities authorized by this article; but for the purpose of meeting current payments and expenses in excess of the receipts, there may be kept an available fund not exceeding ten per cent. of the whole amount of deposits with such corporation, on hand or deposit in any bank in this State organized under any law of this State or of the United States, or with any trust company incorporated by any law of the State; but the sum so deposited in any one bank or trust company shall not exceed twenty-five per cent. of the paid-up capital and surplus of any such bank or company; or such available fund, or any part thereof, may be loaned upon pledge of the securities or any of them named in sub-divisions one, two, three and four of the preceding section but one, but not in excess of ninety per cent. of the cash market value of such securities so pledged. Should any of the securities so held in pledge depreciate in value, after making any loan thereon, the trustees shall require the immediate payment of such loan or of a part thereof, or additional security therefor, so that the amount loaned shall at no time exceed ninety per cent. of the market value of the securities pledged for the same.

119. (Omitted.)

120. *Personal security prohibited loans on bond and mortgage.*—The trustees of any savings bank shall not loan the moneys deposited with them or any part thereof, upon notes, bills of exchange, drafts or

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* *See* section 125 *infra*.

† The provisions of this section distinguish New York savings banks from those of Great Britain and France. Other States of the United States of America, as also Germany, Austria, and Italy, are similarly liberal, in their provisions as regards investments.

‡ The object of this section, which is found in the laws relating to all European land banks, is either to prevent the savings banks from becoming syndicates of land-jobbers or grabbers, or to hinder them from unduly locking-up deposits in property which might not be readily saleable.

any other personal securities whatever. In all cases of loans upon real property, a sufficient bond secured by a mortgage thereon, shall be required of the borrower, and all the expenses of searches, examinations and certificates of title or appraisal of value, and of drawing, perfecting and recording papers, shall be paid by the borrower.

121. (Omitted.)

122. *Restrictions on methods of doing business.*—(No savings bank may trade or engage in ordinary banking business otherwise than as provided in this article, and no payment out may be made except upon production of, and entry in, the depositor's pass-book, save in exceptional and temporary cases such as the loss of such pass-book.)

123. *Rate of interest; extra dividends.*—The trustees of every such corporation shall regulate the rate of interest or dividends not to exceed five per cent. per annum upon the deposits therewith, in such manner that depositors shall receive, as nearly as may be, all the profits of such corporation, after deducting necessary expenses and reserving such amounts as the trustees may deem expedient as a surplus fund for the security of the depositors, which to the amount of fifteen per centum of its deposits the trustees of any such corporation may gradually accumulate and hold, to meet any contingency or loss in its business from the depreciation of its securities or otherwise. The trustees may classify their depositors according to the character, amount and duration of their dealings with the corporation, and regulate the interest or dividends allowed in such manner that each depositor shall receive the same ratable portion of interest or dividends as all others of his class.

(After the reserve shall have reached fifteen per cent. of the deposits, any further accumulation may be divided, once in three years, as an extra dividend to depositors.)

124. *Value of surplus how determined.*—(In the valuation of assets, all stocks, bonds or mortgages on which there are no arrears of interest for more than six months, shall be estimated at their face value, and real property at not above cost. The superintendent of banks shall determine the value of such stocks, bonds, or mortgages as shall be in arrears of interest for six months or more.)

125. *Compensation of officers.*—The trustees of such corporation acting as officers of the same, whose duties require and receive their regular and faithful attendance at the institution, and the trustees appointed as a committee to examine the vouchers and assets pursuant to section one hundred and twenty-eight of this chapter, or to perform the duties required by sub-division 5 of section 116 of this chapter, may receive such compensation as, in the opinion of a majority of the board of trustees, shall be just and reasonable; but such majority shall be exclusive of any trustee to whom such compensation shall be voted. Trustees as such shall not be paid for their attendance at meetings of the board.

126. (Omitted.)

127. *Proceedings against delinquent corporations.*—When it shall appear to the superintendent * from an examination made by or reported to him, or from a report made by any such corporation pursuant to the provisions of this chapter, that it has committed any violation of its charter or of law, or is conducting its business and affairs in an unsafe or unauthorized manner, he shall, by an order under his hand and official seal, direct a discontinuance of such illegal and unsafe or unauthorized practices, and strict conformity with the requirements of the law, and with safety and security in its transactions. If any such corporation shall refuse or neglect to make any report required by law, or to comply with any such order, or if it shall appear to the superintendent that it is unsafe or inexpedient for it to continue to transact business, or that any trustee or officer thereof has abused his trust, or been guilty of misconduct or malversation in his official position injurious to the bank or to its depositors, the superintendent shall report the facts in writing to the attorney-general. The attorney-general may thereupon bring an action or institute proceedings for the dissolution of the corporation or for the removal of one or more of its trustees or for the transfer of its corporate powers to other persons, or for the consolidation and merger of the corporation with any other savings bank that may be willing to accept of the trust, or for such other or further relief or correction as the facts reported to him may seem to require.

The court, before which any such action or proceeding shall be instituted, shall have power to grant such orders, and in its discretion from time to time to modify or revoke the same, and to grant such relief and render such judgment as the facts or evidence of the case or the situation of the parties and the interests involved, shall seem to require. If, in such proceedings, an order shall be granted upon notice or without notice restraining such corporation and its officers from paying out or disposing of any moneys or property of or held by it, the superintendent may, and, if directed by the court, shall take temporary possession of all the assets, property and rights of or held by such corporation, and hold possession thereof until the further order of the court.

128. *Examination of vouchers and assets by trustees.*—The trustees of every savings bank, by a committee of not less than three of their number, on or before the first days of January and July in each year, shall thoroughly examine the books, vouchers and assets of such savings bank, and its affairs generally. The statement or schedule of assets and liabilities reported to the superintendent of banks for the first of January and July in each year shall be based upon such examination, and shall be verified by the oath of a majority of the trustees making it; and the trustees of any savings bank may require such examination at such other times as they shall prescribe. The trustees shall, as often as once in each six months during each year, cause to be taken an accurate balance of their depositors' ledgers, and in their semi-annual report to the superintendent they shall state the fact that such balance has been taken, and the discrepancies, if any, existing between the amount due to depositors, as shown by such balance and the amount so due as shown by the general ledger.

129. (Every savings bank to pay annually five dollars to the treasury for the expenses of the superintendent of banks *other* than those involved in the examination of such banks; any residue of expenses is to be apportioned by the superintendent, and to be in proportion to their assets, by all savings banks having more 100,000 dollars in deposits.

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* That is, the official superintendent of banks.

130. *Debts due savings banks from insolvent banks preferred.*—All the property of any bank * or trust company which shall become insolvent, shall, after providing for the payment of its circulating notes, if it has any, be applied by the trustees, assignees or receiver thereof in the first place, to the payment in full of any sum or sums of money deposited therewith by any savings bank, but not to an amount exceeding that authorized to be so deposited by the provisions of this chapter, and subject to any other preference provided for in the charter of any such trust company.

131. *Advertisements of unauthorized savings banks prohibited.*—No bank, banking association, individual banker, firm, association, corporation, person or persons shall advertise or put forth a sign as a savings bank, or in any way solicit or receive deposits as a savings bank. Any bank, banking association, individual banker, firm, association, corporation, person or persons violating this provision shall forfeit to the people of the State for every offence the sum of one hundred dollars for every day such offence shall be continued

132 to 135. (Omitted.)

STATUTES RELATING TO SAVINGS BANKS AND INSTITUTIONS FOR SAVINGS (MASSACHUSETTS).†

Chapter 116.—Commissioners of Savings Banks.

1. The board of commissioners of savings banks shall consist of three commissioners appointed by the governor, with the advice and consent of the council, subject to removal in like manner, each of whom shall be sworn, and shall hold office for the term of three years, unless sooner removed.

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3. The commissioners shall visit once in every year, and as much oftener as they deem expedient every savings bank and institution for savings incorporated by authority of this commonwealth, and when such institutions are connected with a national bank, they shall make such arrangements with the national bank examiner, if possible, that their visits shall be simultaneous. At such visits they shall have free access to the vaults, books and papers, and shall thoroughly inspect and examine all the affairs of each of said corporations, and make such inquiries as may be necessary to ascertain its condition and ability to fulfil all its engagements, and whether it has complied with the provisions of law. They shall preserve in a permanent form a full record of their proceedings, including a statement of the condition of each of them.

4. Either of the commissioners may summon all trustees, officers or agents of any such corporation, and such other witnesses as he thinks proper, in relation to the affairs, transactions and condition of the corporation, and for that purpose may administer oaths; and whoever refuses, without justifiable cause, to appear and testify when thereto required, or obstructs a commissioner in the discharge of his duty, shall be punished by fine not exceeding one thousand dollars, or imprisonment not exceeding one year.

5. Upon the certificate under oath of any five or more officers, trustees, creditors or depositors of any such corporation, setting forth their interest and the reasons for making such examination, directed to the commissioners and requesting them to examine such corporation, they shall forthwith make a full investigation of its affairs in the manner before provided.

6. The commissioners, if upon such examination any such corporation appears to be insolvent, or its condition such as to render its further proceeding hazardous to the public or to those having funds in its custody, shall apply, or, if such corporation appears to have exceeded its powers or failed to comply with any rule, restriction or condition provided by law, they may apply to a justice of the supreme judicial court to issue an injunction restraining such corporation, in whole or in part, from further proceeding with its business until a hearing can be had. Such justice may, with or without previous notice, issue such injunction, and, after a full hearing, may dissolve or modify it or make it perpetual, and may make such orders and decrees according to the course of proceedings in equity to restrain or prohibit the further prosecution of the business of the corporation as may be needful in the premises; and may appoint one or more receivers to take possession of its property and effects, subject to such directions as may from time to time be prescribed by the court or a justice thereof.

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12. The General Court ‡ may make other or further regulations for the government of such corporations, or may take away their corporate powers; and every such corporation and its officers shall be subject to examination by any committee of the General Court appointed for the purpose, who may examine into the doings of the corporation, and shall have free access to its books and vaults. An officer of such corporation, or other person having charge of its books and property, who refuses or neglects to exhibit them to such committee, or who in any way obstructs its examination thereof, shall be punished by fine not exceeding ten thousand dollars, or imprisonment not exceeding three years.

* * * * * *

18. A savings bank or institution for savings incorporated under the provisions of chapter one hundred and sixteen of the Public Statutes shall carry on its usual business at its banking house only, and no deposit shall be received, nor payment on account of deposits be made by such corporation or by any person on its account in any other place than at its banking house; and such banking house shall be kept in the city or town in which such corporation is established; provided, however, that its annual meeting and meetings of its trustees may be held at other places in the city or town where it is located.

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* That is, any *ordinary* bank, or bank of issue, which holds on deposit any funds of a savings bank.

† Only a few sections will be given, to display the ideas regarding savings banks in so advanced a State as Massachusetts in 1893. It will be noticed that, as in New York, savings banks are placed under close supervision while allowed much freedom in the investment of their deposits.

‡ The General Court is the State Assembly not a judicial court.

DEPOSITS, LOANS AND INVESTMENTS.

19. Every such corporation may receive deposits from any person until they amount to one thousand dollars; and may allow interest upon such deposits, and upon the interest accumulated thereon, until the principal, with the accrued interest, amounts to sixteen hundred dollars; and thereafter upon no greater sum than sixteen hundred dollars; but the limitations contained in this section shall not apply to deposits by religious or charitable corporations, or to deposits made by direction of a probate court, by virtue of the sixteenth section of the one hundred and forty-fourth chapter of the Public Statutes.

20. Deposits and the income derived therefrom shall be invested only as follows:—

Firstly, on first mortgages of real estate, situated in this commonwealth, to an amount not to exceed sixty per cent. of the valuation of such real estate: but not exceeding seventy per cent. of the whole amount of deposits shall be so invested; and no loan on mortgage shall be made except upon the report of not less than two members of the board of investment, who shall certify to the value of the premises to be mortgaged, according to their best judgment, and such report shall be filed and preserved with the records of the corporation;

Secondly, in the public funds and in the paper of certain States, towns, &c., which are not indebted to above five (or three) per cent. of the valuation of the property therein as last assessed to the taxes;

Thirdly, in the first debentures of certain first-class railways;

Fourthly, in certain bank stock, but not more than thirty-five per cent. of its total deposits; there are also restrictions as to the amount to be placed in any one bank;

Fifthly, in loans upon the personal notes of the depositors, but not exceeding one-half of the amount of a deposit;

Sixthly, if other investments are not available, then in personal bonds with personal sureties but not to more than five per cent. of the deposits;

Seventhly, in an office building not exceeding a certain value;

Eighthly, any such corporation may hold real estate acquired by the foreclosure of any mortgage owned by it, or by purchase at sales made under the provisions of any such mortgage or upon judgments for debts due it, or in settlements effected to secure such debts: but all such real estate shall be sold by it within five years after the title thereof is vested in the corporation.

21. No president, treasurer, member of a committee or board of investment, or officer, of such corporation charged with the duty of investing its funds, shall borrow or use any portion thereof, be surety for loans to others, or in any manner, directly or indirectly, be an obligor for money borrowed of the corporation; and if such member or officer becomes the owner of real estate upon which mortgage is held by the corporation, his office shall become vacant at the expiration of sixty days thereafter, unless he has ceased to be the owner thereof, or has caused said mortgage to be discharged. Only one of the persons holding the offices of president, clerk, and treasurer shall, at the same time, be a member of the investing committee.

* * * * * *

24. Every such corporation shall, at the time of making each semi-annual dividend, reserve as a guarantee fund, from the net profits which have accumulated during the six months then next preceding, not less than one-eighth nor more than one-fourth of one per cent. of the whole amount of deposits, until such fund amounts to five per cent. of the whole amount of deposits, which fund shall be, thereafter, maintained and held to meet losses in its business from depreciation of its securities or otherwise.

* * * * * *

BOOKS AND RETURNS.

39. The commissioners may prescribe the manner and form of keeping and auditing the books and accounts of any such corporation.

40. The treasurer of every such corporation shall annually within twenty days after the last business day of October make a report to the commissioners showing accurately the condition thereof at the close of business on said day. The report shall be in such form as the commissioners shall prescribe and shall specify the following particulars, namely, name of corporation and number of corporators; place where located; amount of deposits; amount of each item of other liabilities; public funds, including all United States, State, county, city and town bonds, stating each particular kind, the par value, estimated market value and amount invested in each; loans on public funds, stating amount on each; bank stock, stating par value, estimated market value and amount invested in each; loans on bank stock, stating amount on each; railroad bonds, stating par value, estimated market value and amount invested in each; loans on railroad bonds, stating amount on each; estimated value of real estate, and amount invested therein; loans on mortgage of real estate; loans to counties, cities or towns; loans on personal security; cash on deposit in banks, with the names of such banks and the amount deposited in each; cash on hand; the whole amount of interest or profits received or earned, and the rate and amount of each semi-annual and extra dividend for the previous year; the times for the dividends fixed by the by-laws; the rates of interest received on loans; the total amount of loans bearing each specified rate of interest; the number of outstanding loans which are of an amount not exceeding three thousand dollars each, and the aggregate amount of the same; the number of open accounts; also the number and amount of deposits received; the number and amount of withdrawals; the number of accounts opened, and the number of accounts closed, severally, for the previous year; and the annual expenses of the corporation; all of which shall be certified and sworn to by the treasurer. The president and five or more of the trustees shall certify and make oath, that the report is correct according to their best knowledge and belief.

41. Beginning with the year ending with the last business day of October eighteen hundred and eighty-nine and every fifth year thereafter such reports shall also state the number and amount of deposits of fifty dollars and less, of those exceeding fifty dollars and not more than one hundred dollars, of those exceeding one hundred dollars and not more than two hundred dollars, of those exceeding two hundred dollars and not more than five hundred dollars, of those exceeding five hundred dollars and less than one thousand dollars, of those of one thousand dollars or more; and of those to the credit of women, both adult and minor, guardians, religious and charitable associations, and in trust, respectively, received during the year.

42. The commissioners shall furnish blank forms of reports to every such corporation, and shall prepare annually from such reports, and communicate to the General Court on or before the first Wednesday in January, a statement of the condition of each corporation from which a report has been received for the preceding year, and shall include therein a statement of the affairs of such corporations in the hands of receivers, and shall make such suggestions as they may deem expedient relative to the general conduct and condition of each of the corporations visited by them.*

ITALIAN LAW OF THE 15TH JULY 1888. †

1. (All savings banks other than Government banks must come under the present law.)

2. Savings banks formed by groups of persons must be constituted by a formal deed of association.

The deed of association for savings banks started by corporate bodies ‡ or with their aid, shall settle (1) the share to be taken by such body in the appointment of directors (for the savings bank), and in the inspection of the accounts; (2) the business rules of the bank.

The deed of association of savings banks formed by groups of individuals shall settle (1) the number, the mode of admission, the replacement, and the rights of members and of their meetings; (2) the mode of election and the number of the directors; (3) the duties of the directors.

The articles shall be attached to the deed of the association. These must contain the rules for deposits and repayments, for the forms and nature of the pass-books, for the modes of investing the deposits and other capital and for the disposal of the annual profits, together with rules for the alteration of the articles.

3. The original endowment fund of a savings bank, however provided, must consist of actual cash, and must not be less than £120 which may be repaid in whole or in part according to the terms of the deed of association, when the reserve shall have reached the position mentioned in section 17.

The persons or bodies mentioned above shall in no case, save that mentioned in section 17, derive any benefit from (or on any pecuniary interest in) the above fund, or from any subsequent additions to such capital, or from any profits derived by the bank.

4. Savings banks founded by benevolent institutions or by other corporate bodies or with their assistance must be provided with a capital and administration distinct from those of the founding body.

In no case may the administration of a savings bank be undertaken by a communal committee (giunta comunale), or by a district council, or by the members of the same.§

Savings banks may have the management ‖ of other institutions of an economic character in so far as is admitted by the laws or by any special regulations, or by their respective articles.

5. In savings banks founded by associations, membership ¶ is personal and non-transferable.

Members of such savings banks preserve their status even after their contribution (to the endowment fund) shall have been repaid to them.

6. The directors of savings banks are prohibited from sharing in the profits and from receiving salaries or gratuities, except as regards those who occupy the position of manager.

The directors and managers are also forbidden to have pecuniary transactions with the savings banks which they direct or manage.

Savings banks of considerable importance may, however, as an exceptional case, allow sitting fees to directors.**

7. The pass-books of depositors may be personal (nominative), to bearer (al portatore), or personal but payable to bearer. Those payable to bearer may bear a name.††

8. Savings banks may also provide in their articles for the issue of a special category of pass-books to particular benevolent institutions or to particular classes of persons; these shall be characterized (1) by a lower minimum for in-payments, (2) by a limitation of the amount which shall bear interest, (3) by a higher rate of interest. This class of pass-book (*i.e.*, of deposits) shall not exceed a fixed proportion of the aggregate of deposits.

9 to 11. (Omitted.)

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* In 1888 and 1889 it was found necessary to enact as follows :—

During the year eighteen hundred and eighty-nine and every third year thereafter savings banks and institutions for savings shall call in the books of deposit of their depositors for verification in such manner as their respective boards of trustees may elect.

Every savings bank and institution for savings shall, as often as once in each of its fiscal years, make an accurate trial balance of its depositors' ledgers.

† The Italian savings banks are admirable institutions. Exclusive of the Government Post Office banks there are numerous banks formed and worked either by a group of trustees or by public or *quasi*-public bodies (corpi morali) or societies, such as friendly and benefit societies and Monti di Pietá: conversely, the savings banks frequently support such societies as off-shoots from themselves. They are served almost or quite gratuitously, the trustees accepting much labour and responsibility without recompense. They have the right of investing their funds in various classes of security. The Milan Savings Bank is, perhaps, the finest institution in the world in its principles, methods, magnitude and results. (*See* the chapter in Vol. I.)

A specimen of the articles of such banks will be found in this chapter.

‡ *Corpi morali, i.e.*, legal persons whether corporations or corporate bodies, or bodies having a legal entity.

§ That is, the body or committee which actually administers the general work of a commune, shall not be the body or committee, as such, which shall handle the deposits of the villagers or be made officially acquainted, as savings banks' directors, with the accumulations of individuals.

‖ "Avere la gestione": the wording is insufficient; the savings banks have the right of founding as well as of working other institutions.

¶ This refers to the members who unite to found the bank; these correspond to the 'trustees' of the British Trustee Savings Banks.

** The great Milan Savings Bank, which deals with millions sterling annually in deposits, loans and investments, is managed absolutely gratuitously by its directors.

†† The pass-books most in favour in Italy are those 'to bearer.'

12. No objection to the repayment of deposits on pass-books to bearer shall be admitted, except in the case of the loss, destruction or theft of a book, or when there exists a dispute as to the bearer's right to succeed (as heir) or where there is a court injunction. When pass-books are personal objection may also be admitted in case of bankruptcy (of the depositor), or on the demand of the husband or of the legal representative of a minor.

Objections must, in order to 'eval id, be made in writing to the directors.

So long as the objection holds good no payment shall be made without the consent of the objector and (*quære* 'or') without the order of a competent court.

13. The amount at credit in a personal pass-book may, when the pass-book is issued, be subjected, by request of the depositor, to a special assignment (or lien, vincola); in every case, a deposit may, by consent of the owner or by order of a competent court, be assigned, transferred, subjected to a lien or attachment, or to seizure in pursuance of an execution, whether as regards the interest or the principal.

14. Savings banks may receive deposits in account current or otherwise as well as savings deposits. But such deposits must be kept in separate accounts.

15. Savings banks, except when specially authorized by royal decree upon the motion of the Minister of Agriculture, Industry and Trade, may not acquire any immovable property other than that necessary in whole or in part for their accommodation or for the carrying out of their business or for such other operations as are contemplated in section 4, or such as it may be necessary to acquire for safe-guarding their claims in the case of expropriations.

They must sell within ten years such immovable property as they may acquire either voluntarily, or in consequence of expropriations in the course of their claims, or by succession or donation.

16. Savings banks must invest their capital in the manner specified in their articles.

The articles must determine the maximum proportion of the total assets to be borne (*a*) by loans or cash credits secured by mortgages, (*b*) by investments with or loans to corporate bodies.

17. Savings banks must always devote nine-tenths of their net annual profits to the formation and increase of the reserve. The other tenth, and even a larger proportion when the reserve shall have attained the amount of at least one-tenth of the total deposits of all classes, may be devoted to works of benevolence and public utility, or to the development of the founding institution.

18. Any reform or modification of the articles shall involve the least possible departure from the intentions of the original founders.

19. (After the provisions of sections 2 and 3 have been complied with, a royal decree issued on the motion of the Minister for Agriculture shall establish the savings bank and approve its articles after due consideration. Modifications of the articles require similar approval and orders.)

20. In addition to any exemptions from stamp and registration duty allowed by the existing stamp laws to savings banks, such banks shall also be exempt from stamp and registration duty on their deeds of association, on any modifications of the same, and on any powers of attorney which may be used in the withdrawal of deposits.*

21. Savings banks shall pay the income tax † due by holders of deposits, and shall be entitled to recover the same from them. Savings banks shall also pay the said tax upon their net annual profits.

22. The business in deposits other than savings deposits, as mentioned in section 14, shall be regulated by the Code of Commerce and by the special laws relating to credit institutions, and they shall be subject to the ordinary taxes: so also the deeds relating to all investments of capital by savings banks.

23. Savings banks shall be subject to the supervision (vigilanza) of the Minister of Agriculture, Industry, and Trade.

24. The said minister shall have the power of making both periodical and extraordinary inspections of savings banks. The result of such inspections shall invariably be communicated to the directors.

25. When such inspections shall disclose misfeasance in the management of a savings bank and breaches of rule or other gross irregularities, the minister may, by a royal decree and with the consent of the Council of State, remove the directors from office. The order removing the directors shall appoint a royal commissioner who, within three months, shall nominate a new board of directors according to the articles of the bank in question.

26. When inspection shall have disclosed a loss of at least one-half of the own capital (patrimonio, *i.e.*, the endowment fund and reserves), the minister may, after taking the opinion of the Council of State, obtain a royal decree for the dissolution and liquidation of the bank, unless the founders or founding body shall, within one month from the date of ascertaining the loss, replace so much of the capital as shall enable the bank efficiently to resume and continue its business.

The liquidators shall be appointed by the minister, and the liquidation shall proceed under the rules laid down in the Code of Commerce for the liquidation of joint stock societies.

27. Savings banks must transmit to the minister their annual balance sheets duly approved (by a general meeting), within one month after approval; they must also despatch to him, at the close of each half year, a statement of their financial situation, made out in the form prescribed in the Government rules (section 32).

28. No institution which does not conform to the conditions of this law, may assume the title of 'savings bank,' even though it carries on operations of the same nature as a savings bank. (Directors contravening this article are personally liable to a fine amounting to £120.)

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* Compare the exemptions in the English law.

† This is not an exact translation of "la tassa di richezza mobile," which considerably differs in incidence, weight, and method from the English and Indian income tax. It is at present 13·7 per cent. on net profits ascertained according to the provisions of the law.

29. (Directors and others responsible may be fined up to £120, irrespective of the penalties provided by the Penal Code, if they begin business without receipt of proper authority (autorizzazione sovrana) if they contravene the law as to the investment of deposits and the provisions of sections 6 and 17, if they delay the preparation of the balance sheet and half-yearly statements for more than two months, and if, in any document or report laid before a general meeting before the directors or before Government, there shall be any wilful misrepresentation or concealment of material facts relating to the position of the bank.)

30. The minister shall, on proof of such misdemeanours, lay a complaint before the proper court for the infliction of the penalty.

31. (Omitted.)

32. A royal decree shall, after taking the opinion of the consultative committee established for considering matters of providence and labour, and of the Council of State, approve of the rules issued for the execution of the present law.*

GOVERNMENT RULES FOR THE GUIDANCE OF SAVINGS BANKS, ITALY.

1. Persons or bodies intending to establish savings banks under the special law must present a proper application with the documents hereinunder mentioned to the Minister of Agriculture, Industry, and Trade through the prefect. †

2 and 3. (Savings banks founded by associations of persons must present with the application (*a*) the deed of association and the articles (*see* section 2 of the law), (*b*) a certificate from the treasury that the requisite endowment fund has been deposited therein.

When the savings bank is founded by or by aid of a corporate body, a copy of the resolution deciding to found such bank must also accompany the application.)

4. The deed of association shall, in addition to the items mentioned in section 2 of the law, determine (1) the amount of the endowment fund, not being less than £120, and the mode of providing it; (2) the time, modes and proportion in which such fund is to be repaid after the formation of a reserve, should such repayment be contemplated; (3) the establishment of an endowment fund and administration separate from those of the founding body, when such body is a corporate body; (4) the nature of the institutions of which the bank shall have the management (section 4 of the law), with precise details as to the methods, objects and means for establishing the same.

5. The articles of a savings bank must settle the following matters:—

(1) *Deposits.*—(*a*) The minimum in-payment, and—should it be considered necessary—the maximum amount which shall bear interest; (*b*) (similar matters for the special class of deposits mentioned in section 8 of the law); (*c*) the provisions distinguishing savings deposits from deposits on account current; (*d*) the rules for fixing interest, ordinary or extraordinary.

(2) *Pass-books.*—(*a*) The form of the pass-books, whether to bearer, &c.; (*b*) special rules under section 10 of the law (issue of duplicates); (*c*) the benevolent institutions and classes of persons to whom special pass-books are to be issued under section 8, and the maximum proportion which such deposits shall bear to the total deposits.

(3) *Repayments.*—(*a*) The maximum repayable at sight; (*b*) the conditions for the repayment of larger sums.

(4) *Administration.*—Whether the office of manager when filled by a director shall be salaried; if so the amount of such salary; (*b*) the rate of sitting fees if such shall be allowed under section 12 of the law.

(5) *Investments.*—(*a*) A precise statement of the nature of the securities in which funds may be invested; (*b*) the maximum proportion which may be invested in loans or cash credits secured by mortgages; (*c*) the maximum proportion which may be lent to or invested with corporate bodies.

6. *Distribution of net profits.*—(*a*) The use to be made of the one-tenth which is not compulsorily made over to the reserve; (*b*) the share of the profits (to be used otherwise than in increasing the reserve) and the way in which such share is to be used after the reserve shall have reached the amount fixed by section 17 of the law.

7. *Modification of the articles.*—(The cases in which modification may be demanded by a minority of the members, the proportion of such minority, and the rules for the exercise of the right).

(6) The prefect shall, within eight days from the receipt of the application (rule 1), transmit it and its enclosures to the minister, with his observations and opinion.

(7) (The minister may demand further information and propose any modifications in the articles or deed of association).

8. The royal decree, the deed of association, and the articles must be published in the official *Bulletin of institutions for thrift and providence* ‡ within one month from the date of the decree.

After such publication the minister shall release the sum placed in the treasury as per rule 2 (*b*). §

9. (Alterations in the articles require similar formalities as in sections 6 to 8.)

10. (Any person becoming a director of a savings bank must settle within six months any claims which the bank may have upon him, or his office will become vacant.)

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* *See* the rules next following.

† The words "Prefect" and "Province" may be read in this Presidency as corresponding to "Collector" and "District" respectively.

‡ This is a monthly publication containing a mass of statistics, information, sets of articles, laws, &c., relating to institutions for thrift, &c., whether in Italy or foreign countries. Such a bulletin is necessary for India also.

§ That is, the fund is replaced at the disposal of the bank for proper investment according to the law and the articles of the bank.

11. No one may become a director who is the syndic or other member of the council of the town or province in which the bank is situated.

12. Sitting fees, permissible in exceptional cases by section 8 of the law, may only be allowed in the case of banks having a capital in deposits and otherwise of at least £200,000, and must be limited to the days on which directors are actually on duty according to their turns of office, and to meetings of the board.

13. Benevolent institutions admissible to special deposit conditions as per section 8 of the law, shall include friendly societies of working men.

In the classes of persons similarly privileged shall be included all those who depend upon manual and daily labour, and elementary school teachers.

The proportion which such special deposits shall bear to total deposits shall not exceed one-tenth.

14. (Accounts current to be distinct in every way from savings deposits.)

15. (Omitted.)

16. The nature of permissible investments shall be precisely specified in the articles, and no investment of any other kind shall be made by the directors.

In selecting investments, care must be taken that they possess the requisites of security and of easy realization and collection.

17. The supervision to be exercised by the minister shall be effected by the examination of the balance sheets and half-yearly statements, and by means of inspections carried out by the prefects, by the royal commissioners connected with banks of issue, and by other officers.

18. When the prefect has reason to believe that a savings bank is violating its articles, or is contravening the law or the present rules, or that it will be unable to fulfil its engagements, he shall at once inform the minister who may require him to make such inspections or examinations as may be necessary.

In any case of such gravity or urgency that there is no time for reference to the minister and for receipt of his orders, the prefect may, of his own motion, undertake the necessary inspections, informing the minister of the same forthwith. When at the prefect's head-quarters there is a commissioner charged with supervising banks of issue, it shall be his duty to perform such inspections, but it shall rest with the prefect to stimulate the action of the commissioner when such action shall not be sufficiently vigorous. The commissioner shall not, of his own motion, undertake inspections in such cases without having previously consulted with the prefect and with his consent.

19. The regular inspections shall be annual, but extraordinary inspections shall take place whenever the minister considers them necessary.

Regular and extraordinary inspections shall be carried out by suitable examinations of the accounts, bill-book, and cash of the bank. They should especially aim at ascertaining (1) whether the books and accounts correspond with the half-yearly statements and with the annual balance sheets ; (2) whether the securities and cash as entered in the accounts are actually in hand ; (3) whether the provisions of the law, of these rules, and of the articles with regard to deposits, investments, and the reserve, are duly observed.

The inspections shall also ascertain whether the business and account keeping of the bank are well conducted.

20. Every inspection is to be carried through on the day it is begun or on consecutive days without interval, in order to obtain trustworthy results. The directors and manager must give all required assistance, and the head of each branch must be present when his branch is examined.

21. The results of any inspection must be duly recorded in a note. Any contention, that may arise between the Government officers and those of the bank, must be specially mentioned therein.

Should any irregularities be discovered such as are entered in section 29 of the law, a separate memorandum must be drawn up to be sent to the court by the minister.

The report must be sent to the minister with a note by the inspector on the general working of the institution, on the causes of any irregularities and difficulties, and on the method for removing the same.

22 and 23. (In case of loss of half the own capital (section 26 of the law), the minister shall at once call a meeting of the members or founders and enquire whether they will replace the lost capital; the reconstituted capital must never be less than the original endowment fund.)

24 and 25 (When a board of directors has been removed (section 25 of the law), the commissioner shall assume charge of the bank, reporting monthly to the minister, and taking his orders on all matters other than those of ordinary management; as soon as a new board has been appointed, he must hand over charge, a memorandum in triplicate being drawn up.)

26 to 35. (Refer to liquidation.)

36 The honoraria or other dues payable to the commissioner or to the liquidators, shall be settled by the minister for each case, and shall be paid by the bank.

37. The annual balance sheet to be sent to the minister must clearly and correctly display the working of the bank ; it must show the movement of the deposits classified according to their several categories, the profits which have accrued, the losses sustained with the causes thereof, the expenses of every sort, and the distribution of profits. It must be accompanied by a report from the directors, explanatory of the statements in the balance sheet, and discussing the progress of the bank and the working of any other institutions dependent on it.

An abstract of the various balance sheets shall be published in the bulletin for savings banks.

38. The half-yearly statements shall be sent in to the minister in the first fortnight of the next month. They must show the results in each head of account, viz., own capital, deposits, investments, expenditure, &c.

A royal decree shall, on the motion of the minister, prescribe a form for these statements, which shall be attested by (various officers) of the bank in token of correctness.

An abstract of the several statements shall be published in the bulletin.

39. When the balance sheet and statements are not sent in punctually, the minister may send an inspector to prepare them.

40. A royal decree shall settle the contribution to be paid by savings banks for the cost of publishing their several documents (deed of constitution, &c.) and statements.

41 to 48. (Are of a temporary nature.)

ARTICLES OF THE CORTONA (ITALY) SAVINGS BANKS.*

Scope.

1. The bank is directed and maintained for the benefit of the poorer classes and for the promotion of thrift among the working classes by the society established in 1865 as a branch of the Savings bank of Florence, but subsequently made an independent organization.†

2. (Mentions the laws governing the bank; *see* translation of the principal law *supra*.)

Number, admission and duties of Members.

3. The society ‡ consists of not more than 97 members, corresponding to the number of foundation shares: the status of member cannot be transferred, or transmitted by succession, and is lost whenever a member loses his civil and political rights.

4 to 9. (Members must, with certain exceptions, be residents of Cortona; vacancies are filled by election only; all appointments are made by the assembled members who may themselves be appointed; members are bound frequently to visit the bank, and communicate, if necessary, the result of their inspections to the manager; they can never under any circumstances claim any share whether in the accumulated capital of the bank or in its annual profits.)

Representation and duties of the Society.

10. The society is represented and the bank managed by a board consisting of a chairman and nine directors.

11. A manager, secretary, and three auditors (supervisors, sindaci) complete the administration.

12. The society in general meeting appoints from among the members the chairman, directors and auditors. All these offices are honorary (gratuitous).§

13. (The board appoints the manager who may be paid: also the secretary, who must be a member, and may also be paid.)

14 to 20. (Deal with the election, &c., of office bearers.)

The Board of Directors.

21 to 28. (Deal with the duties of directors which are of the usual nature.)

The Chairman.

29 to 32. (Deal with the duties and powers of the chairman.)

The Manager.

33 to 48. (The manager superintends all office work, represents the directorate in court and with the public, is responsible for all funds and securities, looks after the books and correspondence, and drafts the annual report, &c. He has certain powers in granting short delays in cases of dues to the bank, holds one of the three keys of the safe, and is otherwise a responsible officer from whom security is required.)

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* *See* Vol. I, pp. 203–208.

† This method is common in Italy both amongst savings and popular banks, and is distinctly favoured by the promoters of thrift and popular credit. A small branch or even agency is established by an existing bank, and this, in turn, develops into an independent unit with, subsequently, its own branches or agencies.

The Cortona bank is an offshoot of a larger bank; others are differently formed; *see* Vol. I, pp. 205, 206, *e.g.*; the Verona Savings bank is the descendant of one founded in 1825 by the local Monte di Pietà (pawnbroking establishment) which, as in Europe generally, is a public office; the Verona Municipality (comune) is the 'corporate founder of the savings bank,' which is supervised by a committee appointed by the municipal council. That of Badia Polesine was founded in 1878 by the 'Working-men's Society' of that place, which is a Friendly Society (Società Operaia di mutuo soccorso), and which granted an endowment fund of £400 to the savings bank at its foundation: this fund bears no interest and is not repayable till the reserve of the bank shall have reached one-tenth of the deposits. That of Ferrara was formed in 1838 by a society of private persons who subscribed a fund of £425 in 100 shares, bearing no interest, but gradually repayable, in part, should circumstances permit; the object was to encourage thrift among the poorer classes by providing a secure place of deposit. That of Cingoli was founded in 1845 by the "voluntary association of 90 respectable persons, with the object of promoting thrift among the poorer classes by collecting their savings and investing them to advantage, the whole without any profit to the founders"; each share was about £2. That of Calabria Citra was founded in 1861 by the District Board (Amministrazione provinciale), and is managed by a directorate composed principally of members of the Board. That of Reggio d' Emilia was founded in 1852 by the Monte di Pietà of that place, and though it forms a separate entity it is administered by the local committee which manages the Monte and affiliated benevolent societies. In all cases the duties performed by the administrators are gratuitous.

‡ That is, the society which founded and maintains the bank, and consists of a certain number of 'members' who correspond to the 'trustees' of the English Trustee Savings banks.

§ *See* section 6 of the law.

*The Auditors.**

49. It is the duty of the auditors (sindaci) to follow continuously the proceedings of the directorate, to assure themselves of the continuous and scrupulous observance of the articles and rules, to verify the movement and state of the cash and of the securities in hand, to report to the directors any matter of importance which their inspections may disclose, and to suggest such improvements as they may consider useful whether in the management or in the system of accounts. Finally, they must review the annual balance sheet and take steps to present it to the society together with a written report mentioning such matters as may be important.

50 to 57. (Their reports should be in writing; they are entitled to pass written opinions on the modes of investing the funds; they can require from the directors or manager any explanations or statements that they may need together with all the books, &c., that they may desire to see; they must make unexpected examinations of the cash. They may carry out their duties either collectively or by turns, but any communications to the board or to the society must be joint and not individual. One of the three keys of the safe must be held by them. No controller can hold any other office in the society.)

The Secretary.

58 to 63. (Omitted, being unimportant.)

Meetings of the Society and of the Board.

64 to 74. (Omitted; of no special importance.)

Investment of the funds.

75. The funds of the bank (Cassa) shall be invested as follows:—

(*a*) In mortgage loans to persons of known respectability and solvency, to be returned within five years if repayable in one sum, or within 50 years if repayable by instalments;

These loans shall be secured by the mortgage of immovables, the transfer value of which shall exceed the sum advanced, with any extras, by one-half if the property be buildings, and by one-third if it be rural property (land or a farm).

Whatever be the date or mode agreed upon for the repayment of such loans, the bank shall, in case of necessity, always have the right to demand from the borrower, at four months' notice, the repayment of one-tenth of the balance still due by him, and, at one year's notice, of the total.†

(*b*) in the purchase of paper issued or guaranteed by the State, or of debentures issued by institutions legally entitled to grant real credit (*credito fondiario, crédit foncier*);

(*c*) in the acquisition, by the substitution (of the bank as creditor) of mortgages secured as in (*a*);‡

(*d*) in advances on the pledge of Government (public) paper; such advances shall not exceed six months in term, or four-fifths of the market value of the paper, provided, moreover, that no advance shall exceed the face value of the paper;

(*e*) in discounting bills (for work done) due for public works to contractors by corporate bodies, provided that such are sufficiently guaranteed; §

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* The duties of the sindaci (controllers, supervisors or auditors) are laid down in the Code of Commerce, which provides compulsorily for the appointment, &c., of these officers in every society or company. The provisions are as follows:—

183. Three or five controllers, with two deputies, shall be appointed for the supervision of the affairs of the society, and for the audit of the balance sheet. They may be members of the society or not and are re-eligible.

Parents of directors and other relatives to the fourth degree of relationship, are not eligible as controllers.

184. The duties of controllers are as follows:—

(1) to settle, in concert with the directors, the form of the balance-sheet, and the (financial) position of the shares;

(2) to examine the books at least once in three months, so as to ascertain the current business and determine the suitability of the account system;

(3) to make frequent and unexpected examinations of the cash in hand at intervals not more than three months apart;

(4) to verify with the books at least once in every month, the existence of the various documents and securities of every sort held in pledge, as security, or under custody;

(5) to ascertain the due execution of the rules of the society;

(6) to examine the balance sheet and to report thereon;

(7) to supervise the work of liquidation;

(8) to convene extraordinary general meetings, as also ordinary ones when the directors omit to do so;

(9) to be present at all general meetings;

(10) in general, to see that the provisions of the law, and of the memorandum and articles of association are observed by the directors.

The controllers of companies which do not fall under section 177 (companies for the grant of credit which must send their returns to the Commercial Court) are entitled to obtain monthly from the directors a statement of business done.

Controllers are entitled to be present at the meetings of directors and to enter on the agenda list of such meetings and of general meetings any proposals which they may deem necessary.

† This mode of investing funds is unknown to English and French Savings banks, but is general in Germany, Austria, Italy, and the United States, and is very successful, lucrative and secure (*see* Vol. I. *s.v.* 'Savings banks').

The term and conditions of such loans differ in various banks, since the law leaves them free to settle for themselves the articles governing their investments; but the differences are only in details.

The last clause is intended to safeguard the bank in case of a sudden and general demand for the return of deposits.

‡ This enables savings banks to relieve embarrassed yet solvent persons by buying up debts of a usurious character and substituting more equitable contracts.

§ Corporate bodies such as district boards, communes, friendly and benevolent societies, &c. There is, in India also, frequently much delay in paying contractors for public work done, and as contracts for such work are often executed with money borrowed at high interest, contractors suffer loss unless the contract rates are unduly high. By discounting with a bank their invoices or bills for work done—secured by an acceptance endorsed upon them by the debtor—contractors can touch their money as soon as it is due and thus do work on cheaper terms.

(*f*) in lending upon or discounting bills of exchange of not more than six months' term, issued by corporate bodies;

(*g*) in discounting bills of exchange having three approved signatures;

(*h*) in deposits on account current with well established banks;

(*i*) in cash credits secured by mortgages of the character mentioned in paragraph (*a*);

(*l*) in accounts current against the deposit of securities or cash;

(*m*) in advances on the pawn of valuables, whether gold, silver, precious stones, goods, or domestic furniture, up to not more than two-thirds of the actual value of such property.

76. The rules to be followed in each class of investment shall be entered in special business regulations (supplementary to these articles).

77. The bank may also, should it deem fit, carry on the work of agricultural credit (credito agrario) as provided for by the law of 23rd January 1887, or such other work as may, by any special laws, come within the scope of savings banks.*

78. The bank may not invest in all more than six-tenths of its assets, as disclosed by its latest balance sheet, in loans and cash credits on mortgage to private persons and in loans to corporate bodies.

Profits.†

79. The profits of the bank shall not be divisible amongst the members (of the founding society): they shall be reserved to meet any liabilities, *first*, as regards savings deposits, *secondly*, as regards ordinary deposits. Each year the accruing profits shall be added to such reserve.

80. The society may, from time to time, determine that a portion of the profits not greater than one-tenth of each year's profits, shall be devoted to works of beneficence or to the development of providence.

81. When the reserve shall have so accumulated from the profits as to amount to and be maintained at one-tenth of the deposits of every kind, the net annual profits may be distributed as follows:—

Two-tenths to the reserve;
three-tenths to a fund for equalizing the value of securities held by the bank;
five-tenths to the fund for the execution of works of beneficence or for the development of providence.

Pass-Books and Deposit Receipts.‡

82. The bank will receive savings and deposits at the hours and on the days mentioned in the rules of business.

83. This business will be carried out through—

(*a*) pass-books for ordinary savings deposits;
(*b*) pass-books for special savings deposits;
(*c*) pass-books (personal only) for petty savings deposits by the working classes; §
(*d*) deposit receipt notes.

84. Pass-books of all kinds and receipt notes are supplied gratuitously. They must be countersigned by the chairman, manager, and two directors, and sealed.

85. All in-payments, notices of withdrawal, and repayments must be entered in the pass-books or receipt notes. Only one pass-book or receipt note may be issued to or presented by the same person.

86. Only heads of benevolent institutions, workshops, and factories may be supplied with several pass-books, and may use the same, provided that they declare in writing that such pass-books belong to as many different persons comprised in the number of their dependents.

87. (Interest to run from the tenth day after each in-payment.)

88. The account of profits shall be made up to the 31st December of each year, and, as regards pass-books, the amount shall be entered therein as though a deposit, and shall bear interest; profits on deposit receipt notes shall not bear interest and shall be payable to the receipt owner.

89. From January every depositor shall be entitled to inspect a statement showing the settlement of his account.

90. (Omitted.)

91. The pass-book or receipt note must be presented at every in-payment or withdrawal of funds.

92. In case of withdrawals, whether in whole or in part, whether at sight or on notice, and whether on pass-books or receipt notes, interest shall be calculated up to 21 days before the date of withdrawal.‖

93. If money be not withdrawn at the expiry of a notice given by a depositor, the amount shall continue to bear no interest, and shall be retained at his disposal.

94. (Omitted.)

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* The Verona savings bank provides as follows:—
"(*i*) In the creation of banks for agricultural credit, and in taking part in such banks or in land banks;
"(*m*) in loans to working-men for the purchase of tools and implements."

† *See* section 17 of the law, which requires that nine-tenths of the annual profits shall primarily be devoted to building up a reserve: the remainder must be used in works of charity or public utility or in the development of the founding institution, if any. *See* also articles 125 and 126 *infra* for the disposal of the reserve in case the society comes under liquidation.

‡ *See* sections 7 to 14 of the law of 15th July 1888.

§ Classes (*b*) and (*c*) are entered with reference to section 8 of the law, *q.v.*

‖ The effect of articles 87 and 92 read together is that the bank gains one month's interest, which is probably taken as a commission for the trouble and cost of the operations.

95. *Ordinary savings deposits.*—Ordinary deposits shall be receivable in sums of from one penny (10 centesimi) to £80 (2,000 lire). Each such deposit ceases to bear interest when it reaches the maximum of £280, interest and principal both included.

96. These deposits are withdrawable upon demand to the amount of 8*s.* 4*d.* (10 lire), or upon 21 days' notice for larger sums.

97. Except in cases expressly arranged to the contrary, the person presenting a pass-book shall be considered as its lawful owner, or as the representative of such owner.*

98. † *Special pass-books.*—Deposits on special pass-books constitute a debt by the bank personal to the individual in whose name they are issued. They are transferable or changeable in the modes provided by the law.

The bank will recognize as lawful holders of the same only those named therein, ‡ their representatives, or legal claimants.

99. Special pass-books are issued on account of minors, friendly societies, benevolent institutions, corporate bodies, and privileged persons. §

They may also be issued to other classes of persons upon a written request.

100. No in-payment on a special deposit shall be less than 10 lire (8*s.* 4*d.*).

101. The maximum sum received on a special deposit shall not exceed £280 except by special order of the board which may, in such case, prescribe special conditions as regards the deposit and as regards repayment.

102. When a special deposit has reached £400, principal and interest included, subsequent interest shall not be credited to the deposit, but shall be paid over to the deposit owner.

103. For the repayment of special deposits three weeks' notice is required for sums (from £4) up to £120, four weeks up to £200, and six weeks for larger sums. Sums not exceeding £4 are payable at sight.

104. *Deposit receipts.*—On deposit receipts money is received from single depositors in one or more instalments, each instalment not being less than £4, up to an aggregate not exceeding £800.

105. Sums due on such deposit receipts are repayable up to £200 on one month's notice; for larger sums two months' notice is necessary.

106. Repayments may be made either of the whole or of part of the sums deposited: such repayments will be made only to the persons named in the receipts, or to their proxies, or to their legal assignees.

107. With the above view it is necessary that the receipt holder shall, on his first in-payment, sign the receipt and the corresponding counterfoil in the stub.‖

108. *Petty savings.*—Pass-books for petty savings deposited by the working classes may be issued to day-labourers, tenant farmers (coloni), primary school teachers, and domestic servants.¶ Deposits under this head shall not exceed one-twentieth of the total deposits of all classes.

109. The amount which may be individually deposited under this head shall not exceed £20 per depositor. When the deposit shall have reached that sum, it shall be thenceforth treated as an ordinary deposit.

110. With the view of encouraging thrift among the labouring classes, the bank will grant on such deposits a rate of interest higher than that granted on other classes of deposits, and will also establish a fund from which, at the end of each business year, bonuses shall be allotted to those depositors who, during the year, shall have made at least 40 in-payments and no withdrawal.**

111. In-payments must not be below one penny (10 centesimi) nor exceed16*s.* 8*d.* (20 liré). †† Repayments may be made at sight up to 20 lire; larger sums require fifteen days' notice.

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* The pass-book payable to bearer is the most common and approved form used in Italy; it is, in this way, a readily negotiable security.

† *See* section 8 of the law.

‡ This includes transferees by endorsement: *see* section 13 of the law.

§ In the Verona Savings bank the corresponding rule is as follows:—

"73. (Special pass-books) shall be issued only in favour of friendly societies of artisans and agriculturists, those excepted which contemplate dividends as an object; of protective societies founded with the view of encouraging thrift and providence among the poorer classes; and of those who can prove that they belong to one of the following classes, viz.: (*a*) agriculturists who themselves labour on the soil; (*b*) working-men and artisans; (*c*) domestic servants; (d) members of the lower ranks of fiscal and excise servants (peons, &c.); (*e*) the several classes of police; (*f*) waiters in coffee-houses, ale-houses and inns, drivers of public and private vehicles, clerks, shop attendants, postal and telegraph servants, porters and servants in public offices, railway workmen and porters, rural police, and primary school teachers.

"76. The interest on special deposits shall be one-half per cent. higher than that on ordinary deposits."

In the Verona bank, however, the "special deposits" include both the two classes (*b*) and (*c*) mentioned in article 83 *supra*. These Cortona articles contemplate larger deposits under (*b*), and the smaller ones under (*c*).

‖ It will be noticed that in Italy these deposit receipt notes are transferable.

These deposit receipts are not for a fixed term (*see* 105); some banks (*e.g.*, Foligno) provide for such deposits, the receipts for which are by law transferable.

¶ This is a rather narrow category which might with advantage be extended. The bank of Foligno grants these deposits in favour of "working-men, agriculturists, persons in service, and persons on daily wages"; this, however, does not include primary school teachers; it also allows such deposits up to one-tenth of the aggregate deposit under all heads.

** The last three words are very restrictive: in a small or village bank the wording might be "and no withdrawal save for a productive purpose, including therein the payment of rent": large banks, however, cannot watch over each depositor as a small bank can.

†† This provides a 'Penny bank' for the poorer classes. The bank of Arezzo requires "weekly" (settimanali) in payments of not less than one penny, so as to induce and regularize the saving habit; it also permits deposits till the principal reaches £40, and allows interest thereon to accumulate to a much higher sum.

112. No holder of a pass-book under this class may own more than one such deposit at a time. When such deposit shall be closed, even by transfer to ordinary deposits after reaching the sum of £20, a fresh deposit of this class may be begun, and so on.

113. *General.*—Every pass-book or receipt note shall contain the principal rule relating to deposits of the class to which it belongs.

Loss, theft, or destruction of pass-books, and objections to repayment.

114 to 121. (These articles are based on the Italian law on the subject and translation seems unnecessary. Articles 120 and 121 are as follows.)

120. The bank will suspend payment on pass-books issued to bearer in the following cases:—

(*a*) when it has received notice in due form of the loss, theft, or destruction of such book;
(*b*) when an objector has presented legal proof that a suit regarding the right of succession is pending;
(*c*) when suspension of payment is required by the judicial authorities.

121. In the case of personal pass-books (libretti nominativi), the bank will suspend payment in the following cases besides those mentioned in article 120, viz.:

(*a*) when the deposit has been attached or mortgaged, or is in any way the subject of a suit;
(*b*) when the owner has become bankrupt, has forfeited his civil rights, or has become incapacitated;
(*c*) when the husband of the holder, or the lawful representative of a minor or other incapable, objects to such payment to the wife, minor, or incapable, respectively.

Other operations.

122. The bank will be solicitous to develop its relations with similar institutions in view to harmonious and vigorous action in the field of thrift and providence.

123. It may, either individually or in conjunction with other bodies, undertake or take part in the management of other institutions of an economic character.

124. The bank may establish branches and agencies within such limits as may be useful for the development of thrift and providence.*

Own capital of the bank, &c.

125. The own capital of the bank shall be inalienable and shall constitute the reserve prescribed by law which shall be annually augmented as determined by the present articles.†

126. Should the liquidation of the society be found necessary, any of the own capital in hand shall be expended in works of public benevolence at the pleasure of the members.

MODEL ARTICLES FOR AUSTRIAN SAVINGS BANKS.‡

Objects.

1. The object of the savings bank of . . . . is to assist in the promotion of industry and thrift in general, but especially among the less prosperous classes, to invest savings readily and speedily with security and profit, and to permit their withdrawal at need.

Mode of establishment.

2. *Village (communal) savings banks.*—The bank shall be established by the village of . . . . and under its general guarantee.

The bank is not a village institution, but is an independent foundation and organization, under State inspection.

3. The village, in virtue of the resolution of the village council, dated . . . . which has been approved by the district authorities, will furnish the necessary special guarantee for the deposits and for the lawful interest thereon until released from such guarantee under the provisions of article 7 and, moreover, binds itself to defray the costs of its first establishment and working from the funds of the village, such advance to be in due time repaid from the profits of the bank.§

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* Other banks deal much more fully with this point: *e.g.*, Foligno has ten articles on the subject of which the following form part:—

"36. The general meeting may decide to establish agencies, the principal object of which shall be the collection of deposits on behalf of the parent bank.

"37. The board of directors (of the parent bank) shall appoint for each agency a committee of supervision.

"38. The work of the members of such committee shall be gratuitous.

"39. One member shall act as cashier.

"40. The committee shall be held responsible towards the bank for sums temporarily held by it."

The remaining rules relate to the regulations to be imposed on such agencies.

† *See* articles 79 to 81 *supra*.

‡ These articles are published, apparently, by authority, for the guidance of ordinary non-postal savings banks. They are intended, by modifications entered in the full text, to serve for savings banks whether established by communes (Gemeinde) or districts (Bezirk). It will be remembered that these are corporate bodies with property, rates and taxes, and duties of their own.

It has not been thought necessary to translate the articles in full; many are abstracted and some omitted.

See page 203 of Vol. I.

§ The provisions for district banks are, *mutatis mutandis*, similar, but add to article 3 that the district (authorities or council) will make gratuitous provision for the housing and management of the bank until the bank itself can bear the cost thereof out of its own profits.

The special guarantee mentioned in this article is different from the general guarantee of article 2; *see* article 7, paragraph 3.

The funds of the bank.

4. The funds of the bank shall consist (*a*) of the deposits, (*b*) of the profits of management.

5. The custody and accounts of the funds shall be kept separate from those of the village (or district).

6. The profits of management shall consist of the amount which remains after deducting the interest due to the depositors and the costs of the lawful business of the bank.

The profits shall form the reserve fund of the bank.

(Fifty per cent. of the profits shall be employed in granting higher interest to such deposits as do not exceed 500 florins (rupees) and are of one full year's standing; such interest to be placed to the depositor's credit and added to his deposit. The remaining 50 per cent. shall go to the reserve).*

7. The reserve, which is to be managed and accounted for separately from the deposits, shall be used to cover any losses. This fund shall not be touched for any other purposes until it has reached the amount of 5 per cent. of the total deposits. So soon as this proportion shall have been reached, a portion of the annual profits not exceeding one-half may, by resolution of the board of directors approved by the public (politischen) authorities of the Province, be utilized for such local objects (of the village or district, respectively) of public utility and benevolence as shall serve the interests of the poor members (depositors) of the bank.

When the reserve shall have reached an amount equal to at least 10 per cent. of the total deposits, 90 per cent. of the profits of any given year may, with the consent of the public authorities and so long as the above proportion subsists, be utilized as above.

When the reserve shall have reached the amount of 5 per cent. of the total deposits, the public authorities may consent to the release of the special guarantee mentioned in article 3. The general guarantee referred to in article 2 will, however, always remain in force.

The bank is entitled to form, in addition to the abovementioned reserve, a special reserve intended to meet any market depreciation of its securities. This special reserve must be separately shown in the balance sheet, and must not be taken into account in calculating the proportion of the general reserve to the deposits.

8. The amount expended by the village (or district) out of its own funds at the establishment of the bank shall be made good from the reserve, but repayment cannot be claimed until such reserve has reached the proportion of 2 per cent. of the total deposits.

9. In case of the dissolution of the bank the reserve, or, as the case may be, such amount as remains after the full repayment of the deposits and after the liquidation of all claims, shall be handed over to the village (or district) for employment in local objects of general utility and benevolence (*see* article 49).

Amount of the deposits.

10. Every deposit shall be received provided that it does not fall below one florin (rupee).†

The total amount receivable from a single depositor by means of gradual in-payments, shall be determined by the board of directors. The bank shall return deposits which exceed this maximum.

Interest on deposits.

11. (Rate to be fixed according to the price of money and amount of deposit, the rate decreasing as the amount increases. A month's notice to be given before reducing interest. The rates are to be entered on the first page of every pass-book.)

12. Interest is limited as follows:—

It is only calculated from the first day of the month succeeding that in which it is deposited, and up to the last day of the month preceding withdrawal.

(Or, as an alternative method, interest may be calculated by the half month, which then takes the place of the month in the preceding paragraph.)

13. (Omitted.)

14. (Rules governing the withdrawal of deposits.)

15. (Omitted.)

Pass-books.

16. (Every pass-book is to bear a consecutive number, the name of the depositor, the details of deposits, interest, and withdrawals, and the number of the corresponding page in the bank's ledger. It shall also contain a copy of the articles and a printed table showing the interest and compound interest due on deposits from the smallest receivable deposit up to 100 florins, annually for twenty years to come.)

17. For each deposit account a separate page shall be allotted in the deposit ledger, which shall show every deposit made by the particular depositor with the interest due thereon, and also all withdrawals.

18 to 23. (These articles relate to the transfer, alienation, charging, or loss of pass-books, and need not be translated.)

24. (Relates to the period of limitation for claims upon deposits not withdrawn. Deposits which thus become the property of the bank are passed into the reserve.)

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* This paragraph within brackets is evidently intended to be optional, and is probably only for use when the reserve has already attained a strong position. It is a general European (continental) rule to favour small deposits belonging to the poorer classes.

† This is a high minimum: as shown in Vol. I, page 203, the savings banks appear to serve not merely poor folk but those somewhat well-to-do.

*Investment of the funds.**

25. Such part of the deposits and own capital as will be required for probable needs, must always be held in cash. Such part as is not so required shall be so invested at interest that the engagements of the bank may be completely carried out.

The investments may be as follows:—

(1) in interest-bearing mortgage loans within the Province (and in other kingdoms and provinces of the Empire under certain conditions), but always repayable by fixed instalments and under the following conditions, viz.: (*a*) that buildings under mortgage shall be insured against fire; (*b*) that if the interest on the loans is not paid within, at latest, six weeks from due date, the whole principal with the interest due and any insurance premia that may have been paid by the bank shall be at once recoverable without notice; (*c*) that the debtor pays all costs and accepts the jurisdiction of the Court within which the bank is located;

(2) in interest-bearing loans against the pledge (*a*) of paper issued by the State; (*b*) of debentures issued by provinces, districts or communes with the necessary legal sanction; (*c*) of other paper the interest and principal of which are guaranteed by the State; (*d*) of debentures issued by irrigation societies under the law of 30th June 1884 for the improvement of agriculture by means of irrigation; (*e*) of debentures issued under proper authority against mortgages, and quoted on the Austrian Stock Exchanges; (*f*) of shares of the Austro-Hungarian bank and certain other fully paid-up shares if guaranteed by the State; (*g*) of certain railway preference shares; (*h*) of securities which by law may be declared suitable for the investment of trust and savings bank funds, even though not enumerated above.

Loans on such securities must not exceed the term of six months nor three-fourths of the market value at the time of the loan, or three-fourths of the face value of paper not quoted on the exchange, or three-fourths of the minimum value of paper redeemed by periodical drawings, all taxes deducted;

(3) in paper of the classes mentioned in paragraph 2;

(4) in loans of not more than six months upon current coin to not more than four-fifths of its nominal value;

(5) in discounting its own pass-books, and the interest coupons and securities drawn (by lot) for payment of such classes as are mentioned in paragraph 2; also in discounting and re-discounting bills bearing three good and well-known signatures. None of the above securities must be of longer term than six months;

(6) in loans at interest (*a*) to the State, (*b*) to provinces, districts, villages, and irrigation societies on mortgage of their own taxes or subscriptions when authorized to borrow on such security, (*c*) to public institutions, funds, and corporations, when the same are founded for purposes of general utility. In cases (*b*) and (*c*) interest must be paid to the bank half-yearly in advance;

(7) in loans at interest to any credit society attached to the bank or in any way established by it in accordance with these articles which are subject to the approval of the Government;

(8) in deposits with the larger Austrian savings banks;

(9) with the permission of the public authorities, in loans at interest to industrial and trading companies of limited or unlimited liability established under the law of 9th April 1873, especially to credit and loan societies to which the law of 1st June 1889—, relating to certain privileges in the matter of taxation—is applicable; such loans shall not exceed the aggregate amount paid up on the shares of the societies;

(10) in real estate should the purchase thereof be necessary for the security of the bank, as when estates indebted to the bank are brought to sale in execution (of a decree, &c., or by the bank), and it is feared that the price fetched will be so low, in comparison with the estimated value, that the claims of the bank will not be satisfied. For every such purchase the previous consent of the public authorities must be obtained; when this is impossible by reason of urgency, such consent must be subsequently obtained. Property thus obtained must be sold as soon as it can be done without disadvantage to the bank. With the previous consent of the public authorities real property may be bought by the bank for carrying on its business (for an office, &c.), but only out of its reserve funds;

(11) in endowing a loan office for the grant of personal credit to solvent and deserving peasant proprietors (Klein-Grundbesitzer), and tradesmen) Gewerbetreibende); such endowment shall not exceed 5 per cent. of the assets exclusive of the reserve. The establishment of such a loan office and the conditions of loans to the same, shall be subject to the approval of Government;

(12) in taking part in the cheque and clearing business of the imperial post office savings banks;

(13) should the above investments not exhaust the funds in hand, in deposits with reputable banks and credit societies which have been indicated by the provincial public authorities; such deposits may be on account current or on deposit receipts, provided that they are merely temporary and not permanent.

Investments under headings 9 and 13 shall not in the aggregate exceed the then existing amount of the reserve.

Privileges.

26. (These are very slight being confined to the power of selling securities held in pledge, when dues have not been paid on the loans or when the pawnor becomes bankrupt; this privilege is governed by certain laws, and does not appear to be singular to savings banks. The banks are also entitled to sell such securities if they fall in market value to nine-tenths of the market value at the time of the loan, unless the pawnor within twenty-four hours provides further cover.)

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* This is a chief point in which the practice of foreign savings banks is of interest in a study of popular credit; *see* Vol. I, pp. 198 to 218.

27 to 29. (These sections merely relate to the safe custody of cash and securities, to the times at which money will be received and issued, and to the preparation and publication of the balance-sheet.)

Decision of disputes.

30. Complaints by individual depositors (against the bank) for irregular management (or acts contrary to the articles) shall be brought before the public authorities of subordinate powers (erster Instanz), who shall decide the case and take the necessary action. Appeals from their decisions lie to the Provincial authorities, and finally to the Home-Minister. In all other cases, whether the bank be plaintiff or defendant, recourse must be had to the regular courts.

The officers of the bank.

31 to 47. (These articles relate to the authorities of the bank, and do not seem to need translation. The committee of management shall be elected from among the village or district councillors, and those directly concerned in the administration of the bank must take every interest therein, and must never be in the position of debtors to it: the mayor of the village or head of the district is, *ex-officio*, a member of the board. The committee shall elect from its midst a body of directors, one of whom should, if possible, be a lawyer: these appoint from among themselves a manager, and if the officer is not a lawyer, a special counsel must be designated: the directors manage all the affairs of the bank with any paid staff that may be necessary. Article 47 provides that "the duties of committee members and of directors shall be gratuitous.")

State supervision.

48. A special royal commissioner shall be appointed for the bank, who will be invited to every meeting of the committee and of the directors. He must keep himself continuously acquainted with the progress of business, with the condition of the bank, and with all its affairs, must watch over the exact observance of its articles, must veto any resolutions of the committee or directors which are contrary to the law, to the regulations or to the articles, must cause the necessary precautions to be taken in the proper way for the amendment of the rules and for the security of the bank when defects and irregularities are perceived, must himself take immediate action when there is danger in delay, and must report to the public authorities of the province regarding any instructions issued to him upon the position of the bank and upon his official duties.

Dissolution of the bank.

49. The resolution to close the bank, the mode of carrying out the same, and especially the disposal of any surplus assets (article 9), shall be subject to the approval of the public authorities of the Province.

THE PRUSSIAN LAW OF SAVINGS BANKS.*

* * * * *

19. As regards the supervision of the State, it shall be, in general matters, the same as that prescribed by law for the supervision of the State over other communal institutions. Provincial Presidents (Indicé 'Collectors') and authorities shall, however, be bound to devote special and continuous attention to these institutions, to satisfy themselves that they are suited to their work and that their business is, in order, to make and to arrange for extraordinary inspections of the banks, and, when disorders and abuses are noticed, stringently to compel removal of the same.

20. Provincial Presidents must also require the banks to send in annual reports regarding the business done and the results of the bank's working, in a general form to be prescribed by the Minister of the Home and Police departments, so that a single comprehensive return for the whole Province (district) may be prepared and sent in to the said minister. Every savings bankis, moreover, bound to publish in the local newspaper, or, failing such newspaper, in the official gazette, the statement sent to the president.

21. In the case of savings banks established for larger† areas, such as taluks (Kreis) and unions, their articles must be sent for royal approval.‡

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* *See* Vol. I, pp. 199 to 203. The contents of the regulation of 1838 are so fully stated there that detailed translation in this volume seems needless; *see*, especially, paragraphs 4 and 5 on page 201. Hence sections 19 to 21—regarding general State supervision—at the end of the regulation are alone translated. There are numerous circulars and orders which constitute a manual for Prussian Savings banks, but are too lengthy for translation in a work on credit institutions and on savings banks in their capacity of credit institutions.

† That is, larger than villages, which is the usual area contemplated by this regulation.

‡ In the case of village savings banks the articles must be approved of by the provincial presidents.

CHAPTER VI.—MADRAS NIDHIS.

MEMORANDUM OF ASSOCIATION OF THE MYLAPORE HINDU PERMANENT FUND (LIMITED).

1. The name of the association is the Mylapore Hindu Permanent Fund (Limited).

2. The registered office of the association will be situate in Mylapore, Madras.

3. The objects for which the association is established are—
   (*a*) to enable persons to save money ;
   (*b*) to invest their savings in landed property and Government promissory notes;
   (*c*) to secure loans at a favourable interest on the security of immovable property situate within the original civil jurisdiction of the High Court of Judicature at Madras, of jewels and of Government promissory notes; and
   (*d*) to do all such other things as are incidental or conducive to the attainment of the above subjects.

4. The liability of the members is limited.

5. The nominal capital of the association is Rs. 2,99,964 divided into 3,571 shares of Rs. 84 each to be paid in monthly instalments of one rupee.

N.B.—Raised to Rs. 9,99,936 divided into 11,904 shares in May 1885.
Raised to Rs. 19,99,956 divided into 23,809 shares in April 1889.
Raised to Rs. 24,99,924 divided into 29,761 shares in October 1895.

We the several persons, whose names and addresses are subscribed, are desirous of being formed into an association in pursuance of this memorandum of association, and we respectively agree to take the number of shares in the capital of the association set opposite our respective names :—

Number.	Names, addresses and description of subscribers.	No. of shares taken by each subscriber.
1	C. V. Iyasawmy Moodelliar, Dubash, Messrs. Arbuthnot & Co., residing at Madras ...	15
2	P. Vasudeva Moodelliar, Dubash, Messrs. Arbuthnot & Co., residing at Madras ...	15
3	R. Balajee Row, Vakil, High Court, Mylapore	10
4	M. Singaravelu Moodelliar, Head Clerk, Collector's Office, Saidapet, residing at Mylapore	15
5	M. Srinivasacharlu, Government Pensioner, Mylapore	15
6	M. Subbraya Moodelliar, Translator, High Court, A.S., residing at Mylapore ...	12
7	T. R. Ramanadhan, Principal of Govindu Naidu's school, Madras, residing at Mylapore	15
8	C. Ramasawmy Iyengar, Landed Proprietor, residing at Mylapore	15
9	C. Seshiah, Clerk, Presidency College, residing at Mylapore	10
10	P. Durmalinga Moodelliar, Auditor, D.P.W., Controller's office, residing at Mylapore.	10
	Total ...	132

Witness to the above signatures.

Dated the 13*th November* 1872.

D. VARADA CHARIAR.

ARTICLES OF ASSOCIATION OF THE MYLAPORE HINDU PERMANENT FUND (LIMITED).

Hindus to be subscribers.

1. That a Hindu may become a subscriber to the fund on any day and month of a year.

Amount of shares.

2. That subscriptions to the fund shall be in the shape of fixed integral shares of Re. 1 each per mensem.

Duration of subscription.

3. That every subscriber shall, from the date of his admission into the fund, continue to pay his subscription for a period of seven years.

What constitutes a subscriber.

4. That none shall be considered a subscriber to the fund, unless he has paid a month's subscription and an entrance fee of 6 annas per share, together with 4 annas the value of a copy of rules and a receipt book to be furnished to him on admission.

(*a*) Another receipt book called acknowledgment book shall, if specially applied for, be supplied on payment of 2 annas for the purpose of having payments by each subscriber entered and acknowledged immediately by the bill-collector or clerk receiving them on behalf of the fund.

Application for admission.

5. That applications for admission into the fund shall be addressed to the secretary and drawn in the printed form (Appendix A), which shall be supplied on payment of 3 pies per copy. If disapproved, they shall be rejected without reasons being assigned; but, if approved, they shall be complied with, and a register number given consecutively to each applicant.

Liberty to increase, &c., shares.

6. That subscribers shall be at liberty to increase, decrease, transfer, sell or withdraw their share or shares within seven years from the dates of their respective admissions.

7. (Omitted as per Resolution, dated 15th May 1892, No. 2.)

Old subscribers can join the fund.

8. That subscribers who have withdrawn from the fund, shall be at liberty to rejoin it as new subscribers.

Account of each subscriber how to be closed.

9. That the account of the share or shares of every subscriber shall be closed as follows on the expiration of seven years from the date of his admission :—

(*a*) Such of the subscribers as have not borrowed money shall be paid one hundred and two and-a-half rupees per share in full satisfaction of their claims.

(*b*) Such of them as have borrowed money and cleared the debt shall have their title-deeds, bonds, jewels, &c., returned to them, and they shall be paid the balance due to them on account of the shares held by them.

(*c*) That the subscribers referred to in both (*a*) and (*b*) should be paid also profits, if any, found on the annual settlement of the accounts, according to Rule 49.

10. That the collections of the fund shall be lent to the subscribers for all or any of the following purposes at once or at different times at the rate of Rs. 100 per each of the shares held by them :—

(*a*) As a simple loan within the sums paid in subject to the stoppage mentioned in Rule No. 22.

(*b*) For the purchase, redemption, or on the mortgage of immovable property, jewels and Government promissory notes.

Nature of the real property to be mortgaged.

11. That the immovable property mentioned in the last rule shall consist of buildings, gardens, fields or grounds situated within the jurisdiction of the Original side of the Madras High Court. The property to be lodged as security shall be one in which the mortgagor has an unquestionable right and the directors shall be at liberty to reject the same without assigning reasons.

12. (Omitted as per Resolution, dated 15th May 1892, No. 7.)

Repetition of loans.

13. That subscribers, who have discharged their loans in full or in part as per Rule 33, shall be allowed to draw loans again, as per the same register numbers, security and rules of the fund under which the fully or partly discharged loans were granted.

Loans under different register numbers to be granted on the same security.

14. That subscribers holding shares under different register numbers shall be allowed loans on account of all the shares on one and the same security, provided it is of a sufficient value.

First application for loans.

15. That a subscriber wishing to raise loans on the mortgage of his property shall send an application to the secretary, specifying therein the amount of such loans.

Second application for loans.

16. That applications for loans shall be submitted to the secretary in the Form B in the appendix to the rules to be supplied on payment of 3 pies accompanied by the title-deeds and other documents, or by jewels or by Government promissory notes, as the case may be.

(Resolution, dated 15th May 1892, No. 8.)

17 and 18. (Omitted as per Resolution, dated 1st May 1892, No. 3, and 15th May 1892, No. 7.)

How real property to be valued and reported upon by surveyors.

19. That a plan and estimate of the landed property proposed to be mortgaged shall be prepared by the land appraiser of the fund subject to revision by two subscribers, who shall be appointed from time to time as surveyors; and who shall submit a report of the valuation and of the unobjectionable title of the mortgagor to the property to be mortgaged to the fund. In each case, the applicant shall pay an estimate fee of 10 annas upon every Rs. 100 or part thereof that he may borrow, and he shall also provide them with conveyance.

(*a*) That in the estimates of buildings the value of brick work be calculated at 7 pies per cubic foot, or at 16 bricks per cubic foot, rating 1,600 bricks for a pagoda.

(Resolution No. V of 10th January 1873, adopted at general meeting, dated 28th June 1874.)

(*b*) That if the estimate be submitted within a month from the date of the party first calling on him, the estimate-maker shall receive the fees in full, if within six weeks he shall receive 75 per cent. of the fees, if within two months 50 per cent., if within three months 25 per cent., and if still later, forfeit all his fees. And the date of the party first calling shall be invariably noted by the estimate-maker on the application of the party referred to him.

(Resolution No. XI of 16th October 1894, adopted at general meeting, dated 16th May 1875.)

(*c*) That when property once mortgaged to the fund is again brought up for mortgage to the fund within seven years from the date of the first mortgage; and when the property has undergone no alteration to render a fresh estimate necessary again an estimate and bond fee of 7 annas for immovable property, and 6 annas for movable property, for every Rs. 100 or part thereof be payable to the fund.

How jewels to be valued.

20. That in case of jewel proposed to be mortgaged, they shall be referred to the jewel appraisers of the fund, who shall value and submit an estimate for the same, the applicant, in each case, being required to pay an estimate fee of 8 annas upon every Rs. 100 or part thereof that he may borrow.

Further report of surveyors.

21. That if the report or valuation made in the two cases referred to in Rules 19 and 20 be deemed unsatisfactory, the managing committee shall be competent to call for a separate report or valuation from two other subscribers to be appointed for the purpose. The surveyors shall, in all cases, be held responsible for the correctness of their report, and the appraisers for the correctness of valuation.

Stoppage in simple loans.

22. That in granting simple loans as per Rule 10, the scale of stoppages shall be as follows :—

First	year	12 per cent.
Second	,, ...	10 do.
Third	,, ...	8 do.
Fourth	,, ...	6 do.
Fifth	,, ...	4 do.
Sixth	,, ...	2 do.
Seventh	,, ...	No stoppage.

(*a*) That when a subscriber applies for a simple loan, the loan shall be given with the sanction of the president or the vice-president and the auditor.

(Resolution No. VII of 10th January 1873, adopted at the general meeting, dated 28th June 1874.)

What percentage of the value to be lent.

23. That in granting loans on the mortgage of landed property and jewels, no more than 75 per cent. of the estimated value, together with the amount of simple loan to which the subscriber is entitled, shall be advanced; and in giving loans on the mortgage of Government promissory notes, 10 per cent. less their market value shall be advanced at the discretion of the directors.

(*a*) That in giving loans on the mortgage of Government promissory notes, the nominal value of each paper be taken and a deduction of 12½ per cent. be made.

(Resolution No. XV of 9th November 1873, adopted at the general meeting held on the 16th May 1875.)

(*b*) That benefited subscribers should be allowed to raise a second loan on a fresh number to the full extent on the property already under mortgage with the fund for adjustment of the first loan and the balance for their other purposes.

(Resolution, dated 11th September 1891, No. II.)

Deduction of arrears from loans.

24. That from the amount to be lent to the subscribers all arrears of subscription and interest due from them shall be deducted at each time they receive the loan, as also a bond fee at one anna per every hundred rupees or any part thereof on mortgage loans only.

Loans to be paid after the execution of the necessary documents and the delivery of title-deeds and property.

25. That simple loans shall be paid to subscribers only on execution of the necessary documents; and mortgage loans shall be paid to subscribers only after they have given possession of the landed property with the title-deeds thereof or the jewels or the Government promissory notes on the security of which money is to be advanced, and have executed under their hands, deeds of mortgage of such property in approved forms.

Mortgage deeds to be executed or attested by all co-partners.

26. That mortgage deeds shall be executed or attested by all parties, whether subscribers or not, who are in the opinion of the directors interested in the property to be mortgaged.

Loans allowed to be paid either at once or at different times.

27. That if the state of the fund do not allow the payment at once of the whole amount of loan sanctioned for any subscriber, the bond shall nevertheless be taken for the whole amount, and such sums as can be spared shall, from time to time, be paid to him until they come up to the whole amount.

Special loan.

"(*a*) That in addition to the loans grantable to subscribers under Rule 10, special loans not exceeding three times the amount of such loans be granted to subscribers on mortgage of jewels only, bearing interest at 8 per cent. per annum.

"(*b*) Such interest shall be payable monthly. Penal interest at 3 pies per rupee per mensem shall be charged on all overdue instalments of interest.

"(*c*) That all such special loans shall be allowed to be repaid in instalments at the convenience of the borrower, provided that the whole amount of the loan with interest, if any, shall be repaid within three years from the date of the loan, or when he ceases to be a subscriber to the fund, if this event should happen earlier.

"(*d*) If, at any time, the borrower falls in arrears of six months' interest or if he fails to repay the loan together with interest, if any, within the period specified above, the mortgaged property will be sold in accordance with the provisions of Rule 38.

"(*e*) Interest at the rate of 2 pies per rupee per mensem shall be charged on the balance of principal and interest due at the end of the period specified above.

"(*f*) The amount of special loans and of instalments, in repayment thereof, shall be Rs. 12-8-0 or any multiple of Rs. 12-8-0."

(Resolution, dated 10th March 1895, No. 7.)

Payment.

28. That all payments to the fund shall be made within the 20th of each month to the bill-collector who shall call on every subscriber only once a month; and if no payment could be made then, the subscriber shall remit the amount direct to the treasurer or, in his absence, to the secretary.

(*a*) That for the purpose of the fund, the month be reckoned from the 21st of the one to the 20th of the next following month, and that papers, receipts and disbursements be disposed of or regulated accordingly.

(Resolution No. 14 of 31st August 1873, adopted at the general meeting held on the 28th June 1874.)

Subscriptions in advance and interest in arrears.

29. That subscriptions to the fund shall be paid in advance and interest in arrears for the full month or months, no broken periods being allowed.

Transfer fee.

30. That in all cases of transfer or sale of share or shares, a fee of 6 annas shall be paid for each share.

Duplicate receipt-book fee.

31. That if a subscriber loses his receipt book, he shall pay 4 annas for the duplicate.

How shares increased.

32. That subscribers who are desirous of increasing their shares shall be required to pay at once the arrears of subscriptions on the increased shares, together with the entrance fee, with compound interest at six and-a-quarter per cent. per annum.

Refund of loans.

33. That such subscribers, as have drawn loans from the fund and are desirous of repaying them in whole or in part, shall be allowed to do so, provided the amount refunded shall not consist of fractional parts of a rupee.

Interest.

34. That interest on the transactions of the fund shall be charged at the following rates :—

(*a*) One pie per rupee per month on the amount of loans of all kinds whether paid or reserved in the fund at the request of subscribers.

(*b*) Two pice per rupee per month on the arrears of subscription and interest due every month.

(Resolution, dated 6th December 1891, No. 1.)

(*c*) That simple interest at twelve and-a-half per cent. per annum be chargeable upon any balance that may remain due to the fund in closing accounts after the full term of seven years.

(Recommended in paragraph 13 of the report for 1872–73, adopted at the general meeting held on the 28th June 1874.)

Appropriation of payments.

35. That where a subscriber, by whom subscription and interest are due, pays any sum, it shall be appropriated in the following order, namely, *firstly*, to fees due, from the subscriber on account of notices of default served upon him by the secretary or the vakil, *secondly*, to additional interest that may be due, and, *thirdly*, to the interest and subscription that may be due.

Defaulters.

36. That if subscribers, who are not benefited, fail to pay their subscriptions for three consecutive months, or fall in arrears of six months' subscription at any time, they may be removed from the list of subscribers' and shall have no right whatever to any benefits arising from the fund, but shall be repaid only the subscriptions paid in by them, *minus* any interest that may be due from them on arrears.

37. That if subscribers who have received simple loans fail to pay their subscriptions and interest for three consecutive months, or should the arrears of payment due by them exceed at any time six months' subscriptions, they shall be subjected to penalties mentioned in the foregoing rule.

38. That if subscribers who have received mortgage loans fail to pay their subscriptions and interest for three consecutive months, or should the arrears of payment due by them exceed at any time six months' subscriptions, they shall be subjected to the penalties mentioned in Rule 36. The managing committee shall be at liberty to cause the mortgaged property, whether movable or immovable, to be sold by public auction at any time they may deem it proper to do so.

(*a*) That the directors be at liberty to cause notice of such default to be served upon the defaulting subscriber by the secretary or by a vakil, a fee of 1 anna being charged in the former case and whatever fee is claimed in the latter case being recovered in the same way as the former.

(*b*) That in cases where subscribers execute and send promissory notes in favour of the fund from the mofussil, they be required to send them after registering them.

(Resolution, dated 6th May 1883, No. 13.)

(*c*) That when a simple loan is granted to a resident in Madras, one of the fund clerks or peons shall be present at the execution of the promissory note and make an entry of the fact in a register to be kept for the purpose, giving particulars of the name and number of subscriber, the amount and date thereof and the place of its execution and certifying to their being correct by his own signature.

(Resolution, dated 6th May 1883, No. 14.)

(*d*) That a fee of 5 annas only be charged for every sale notice issued.

(Resolution, dated 6th December 1891, No. 5.)

Disposal of sale-proceeds.

39. That from the sale-proceeds, all expenses and costs shall be deducted, and the remainder carried to the account of the subscribers; but if the remainder be less than the debt, the deficit shall be recovered from them or their heirs, executors, or administrators ; but if greater, the surplus shall be paid to them or their heirs, executors or administrators.

Improvements to the mortgaged real property.

40. That subscribers who have mortgaged their premises to the fund, and who are desirous of making any addition or improvement to them, shall be allowed to do so at their own expense, but with the previous sanction of the managing committee, and under the supervision of the person to be appointed by them. Should they fail to obtain such consent, they shall not only lose all benefits of the fund, but also be proceeded against for the recovery of the full amount due by them, at the option of the managing committee.

(*a*) That when a house or building under mortgage with the fund is proposed to be materially altered, the mortgagor shall be required to furnish a plan of the proposed alteration and also a security or two sureties for the mortgage amount, and that no such alteration be commenced or proceeded with before a written permission is granted by the secretary.

(Resolution No. VII of 5th March 1876, adopted at the general meeting held on the 25th March 1877.)

(*b*) That all immovable properties under mortgage with the fund shall be inspected and reported upon once a quarter by the fund clerk, and once a year by subscribers to be deputed for the purpose.

(Resolution No. VIII of 5th March 1876, adopted at the general meeting held on the 25th March 1877.)

41. That subscribers, whether benefited or otherwise, may be allowed to withdraw from the fund on affording satisfactory reasons for so doing. In the case of benefited subscribers, any balance due from, or to them, will be received from, or paid to them, allowing them interest not exceeding 3½ per cent. per annum on the amount of subscription paid in by them; and in the case of non-benefited subscribers, their subscriptions, *minus* interest on arrears due by them, shall be refunded within three months from the dates of applications, together with interest thereon not exceeding 3½ per cent. per annum.

Withdrawal on satisfactory grounds.

(*a*) That withdrawals from the fund shall be closed on satisfactory grounds only in the case of the subscribers who die within three years from the date of admission and subscribers of more than three years' standing should in every case have their accounts closed on satisfactory grounds.

(Resolution, dated 6th December 1891, No. 4.)

42. That when subscribers, whether benefited or otherwise, withdraw from the fund for reasons which may be deemed unsatisfactory, they shall be liable to the penalties prescribed in Rule 36, and the balance due to them shall be paid within three months.

Withdrawal on unsatisfactory grounds.

43. That the grounds of withdrawal from the fund of any subscriber, if any, shall be stated fully in the application for withdrawal, and certified to, by two of the subscribers.

How grounds of withdrawal to be stated.

44. That if any subscriber dies before the close of seven years from the date of his admission into the fund, his interest in it shall be transferred to the person named in the application for admission, and when no person is named, to his legal heir, if not opposed by other claimants within three months, but if opposed, the transfer will be suspended till the dispute between the claimants shall have been settled by a decision of a competent Court of Justice, or till the disputing parties shall have signed a duly executed deed of compromise in the presence of the directors. In either case, the liabilities of the deceased subscriber, if any, shall have to be fully satisfied before the transfer can take place.

Transfer of interest of the deceased subscribers.

45. That any person, whether a subscriber or not, intending to become a depositor in the fund, shall make an application to the secretary in the printed form (Appendix A), and he shall be at liberty to deposit any sum not less than Rs. 1-4-0 or any multiple thereof, subject to any maximum that may be fixed from time to time by the managing committee, before the 20th of each month, interest being allowed at 5 per cent. per annum upon such deposit. Such interest shall be allowed for the month in which it is deposited and not for the month in which it is repaid. All interests accruing upon deposits shall be paid half-yearly at the end of April and October of each year.

Deposit.

(*a*) That the depositors who are not subscribers shall pay an entrance fee of 12 annas, whatever may be the amount of deposit, and as often as they may renew account, and that a person opening more than one deposit account, whether subscriber or not, shall be treated as a new depositor for each account so opened.

(Resolutions Nos. XIII and XIV of 9th November 1873, adopted at the general meeting held on the 16th May 1875.)

46. That the person depositing money as per Rule 45 shall, at his own cost, be furnished with a copy of rules and a receipt book in which all payment shall be acknowledged jointly by the president and treasurer.

47. That when applications are made for the repayment of the deposit amount in part or in full, payment shall be made in the order of their receipt, from the collections of the fund, the requisite stamp charges being borne by the depositor himself.

(*a*) That when a depositor applies for repayment of his deposit money, he be repaid immediately, if money is available, with the sanction of the president or the vice-president.

(Resolution No. VI of 10th January 1873, adopted at the general meeting held on the 28th June 1874.)

(*b*) That when applications are received for the repayment of the deposit amount in part or in full, payment shall be made in the order of receipt of such applications, provided that the aggregate amount in any month shall not exceed a moiety of the collections made during the month.

(Resolution No. V of 10th October 1874, adopted at the general meeting held on the 16th May 1875.)

(*c*) That the directors shall treat as genuine every signature made in the receipt book in acknowledgment of such repayment.

(Resolution, dated 20th January 1884, No. 13.)

(*d*) That disbursements of each month on account of repayment of deposit, and paid-up subscription in cases of withdrawal, and establishment charges, shall not exceed a moiety of the aggregate monthly collection, and payment of simple and mortgage loans shall be made out of the surplus.

(Resolution, No. XI of 7th March 1875, adopted at the general meeting held on the 27th February 1876.)

48. That when the managing committee think it proper to return any deposit, they may do so by giving a month's notice to the depositor beforehand, after which no interest will be allowed.

49. That the accounts of the fund shall be closed annually, *i.e.*, up to the end of the month preceding that in which they shall have commenced; and that after setting aside what is due to the subscribers in the shape of principal and interest, one-fourth of the surplus money, that may remain, shall form a 'Reserve Fund' to meet any unforeseen and unavoidable deficit, seven-twelfths shall be divided among the subscribers with reference both to the number of their respective shares and the number of months during which they have held them, and the remaining one-sixth among the office-bearers and directors in such manner as may be determined by the managing committee.

Annual closing of the accounts and the disposal of the surplus.

(*a*) That the remuneration of the directors shall be proportioned to the number of meetings which they have attended, and the amount forfeited by them on account of absence shall be added to the reserve fund.

(Resolution No. XI of 6th December 1874, adopted at the general meeting held on 27th February 1876.)

(*b*) That a clear statement of the several sources of profit be prepared and laid before the general meeting every year.

(Confirmed at the general meeting held on the 16th May 1886.)

(*c*) That once a year the ledgers maintained in the office shall be on the occasion of the annual audit of accounts, compared as far as possible, by the permanent auditor of the fund with the receipt or pass-books granted to the constituents of the fund and any case of difference shall be noted.

(Resolution, dated 15th May 1892, No. 12.)

50. (Omitted as per Resolution, dated 15th May 1892, No. 13.)

Breaking up of the reserve fund.

51. That the reserve fund shall be broken up once in four years, and be divided as particularized in Rule 49.

Fraction of a pie.

52. That all fraction of a pie shall be either omitted or considered as one pie in favour of the fund.

Bonds in whose names to be drawn.

53. That all bonds to be executed by the subscribers shall be made out in the names of the president, the two trustees, and the secretary or the treasurer for the time being.

Title-deeds, &c., to be secured in a box.

54. That title-deeds, bonds, jewels, &c., shall be lodged in a box, secured by three locks, the keys of which shall remain in the custody of the president, one of the trustees and the secretary.

(*a*) That title-deeds so lodged in the fund be open to the inspection of the executants on due notice being given and on a payment of 4 annas for each inspection.

(Resolution, dated 6th May 1883, No. 15.)

Disbursements to be made by cheques.

55. That disbursements from the fund shall invariably be made in cheques bearing the signatures of the two trustees, except in cases in which the amount to be paid is too small to allow a cheque being granted under the rules of the bank where the fund money is lodged. In every case of payment by cheque, a fee of 1 anna shall be levied.

(*a*) That every disbursement amounting to Rs. 20 or less be payable by a cash-order drawn and signed by the trustees on the treasurer.

(*b*) That when a cash-order is lost, a duplicate may be supplied on payment of half an anna.

(Resolution, dated 16th March 1886, No. 14.)

Fraudulent conduct on the part of subscribers.

56. That if any subscriber deceives the directors by false statements or fictitious documents or in any other manner whatever, or if he has unjustly or unlawfully recourse to law in any matter whatever connected with the fund, or if he wilfully or deliberately disobeys or counteracts any of the rules or proceedings, he shall not only render himself liable to expulsion, but shall also be liable to the penalties prescribed in Rule 36, and shall never again be admitted into the fund.

Board of electors.

"(*a*) That a board consisting of 30 subscribers residing in Madras be elected by the general body of subscribers once in every five years; and such board shall have power to appoint directors for the management of the fund. That at the end of five years the members of the said board shall retire and fresh members be elected in their place. The retiring members of the board shall be eligible for re-election.

"(*b*) Vacancies occurring in the board during the period of five years shall be filled up by the members of the said board by nomination by a majority of them.

"(*c*) That none shall be eligible for election as a member of the board unless he holds not less than ten shares in the fund.

"(*d*) The president of the direction for the time being shall be an *ex-officio* member of the board, and with the exception of the president no member of the board shall be a director.

"(*e*) The appointment of directors shall be by nomination by a majority of the board. The majority for the above purpose shall be not less than ten for each vacancy.

"(*f*) That none shall be eligible for appointment as a director unless he holds not less than fifteen unencumbered shares. He shall be considered to have vacated his seat in the direction the moment he encumbers the said minimum of fifteen shares."

(Resolution, dated 10th March 1895, No. 2.)

Managing committee.

57. That the management of the fund shall be vested in a committee consisting of not more than sixteen directors including a president, a vice-president, two trustees, to be selected from among the subscribers holding not less than fifteen unencumbered shares each.

(Resolution, dated 1st May 1892, No. 4.)

"(*a*) That directors when appointed as office-bearers, excepting the president, shall, in addition to shares prescribed in Rule 57, increase their interest in the fund in the shape of a deposit account carrying at no time less than Rs. 2,000 at the credit of such directors during the incumbency of such offices.

(Resolution, dated 15th May 1892, No. 16.)

"(*b*) That a paid secretary, a paid auditor and a paid treasurer be appointed in the place of the present director secretary and assistant secretary, director senior and junior auditors and director treasurer and assistant treasurer; that their pay be fixed at a sum not exceeding Rs. 100, Rs. 75, and Rs. 70 respectively.

Office establishment.

"(*c*) That the paid secretary, the paid auditor and the paid treasurer be not directors of the fund.

"(*d*) That an outside auditor be appointed to conduct concurrent and annual audits.

"(*e*) In order to provide for this additional expenses incurred, the portion of the profits allotted to directors be reduced from one-fourth to one-sixth.

"(*f*) That the rules of the fund inconsistent with the above proposition be rescinded."

(Resolution, dated 10th March 1895, No. 4.)

58. That in the case of insolvency, continued absence for a period of six months, or incapacity of any of the directors, or in the case of death, resignation or retirement of a director, or for any other sufficient cause, his name shall be removed from the list of directors and another appointed in his place by the general body of subscribers at a general meeting.

(Passed by general meeting held on 16th September 1888.)

Retirement of directors.

59. That four of the directors, including office-bearers, shall retire by rotation at the close of each year, but they shall be eligible for re-election.

(Confirmed at the general meeting held on the 16th May 1886.)

Meeting of the directors.

60. That the directors shall meet every month, or oftener, if necessary, to conduct the affairs of the fund, and that seven of them shall form a quorum, without which no business shall be transacted.

How to act in the absence of the president.

61. That if the president and vice-president be absent at the monthly meetings, one of the directors present shall be appointed to act for him for the time being.

Votes.

62. That at the meetings of the directors, all matters shall be decided by a majority of votes, and that in all cases of an equal division of votes, the president, or the vice-president, or in the absence of both, the director acting for him shall have a casting vote.

Directors to decide according to the rules.

63. That the directors shall decide all matters according to the rules of the fund. When doubt arises as to the constructions of any rules or any other matter, they shall be guided by the decision of a general meeting of the subscribers.

Appeal to a general meeting.

64. That from the decision of the directors, any dissatisfied subscriber may prefer an appeal to a general meeting.

Bye-rules.

65. That the managing committee shall have the power of making, passing or altering bye-rules consistently with the main ones, should their experience render such measure necessary for the benefit of the fund. Such proceedings of the committee shall be held good, unless disapproved of by a general meeting of the subscribers.

Proceedings of the directors to be binding on subscribers.

66. That all proceedings of the managing committee relating to ordinary or important matter shall be binding on every and all subscribers, unless such proceedings are rescinded in a general meeting of the subscribers.

Duties of the secretary.

67. That the secretary shall lay for disposal all applications in their order before the committee at their monthly meetings, and record their decision and obtain their initials thereto. He shall conduct all the correspondence between the committee and the subscribers, &c., and may dispose of papers by circulating them, should he deem such measure necessary for the benefit of the fund.

(*a*) That the appointment, suspension or dismissal of the paid secretary, the paid treasurer and the paid auditor, and the dismissal of the rest of the office establishment shall vest in the managing committee (the directors); and that the president shall, in other respects, exercise full power over the whole office establishment.

(Resolution, dated 10th March 1895, No. 9.)

68. (Omitted as per Resolution, dated 7th April 1895, No. 4.)

Duties of the treasurer.

69. That the treasurer shall receive all payments to the fund and acknowledge the receipt thereof by affixing his signature to the receipt book accompanying the money. He shall deposit all such collections in a Chartered Bank, or in a respectable House of Agency in the names of the trustees, and the amount of cash in his hands shall in no instance exceed the sum of Rs. 50. When the bill-collector collects Rs. 50 or more in one day and finds it convenient to deposit the collection in the bank before going to the treasurer, he shall do so and take the bank receipt to the treasurer instead of cash.

Duties of the trustees.

70, That the trustees shall have the custody of all the collection deposited by the treasurer in the bank, and shall keep no money in their hands.

General meeting.

71. That a general meeting of the subscribers shall be held annually, soon after the closing of each year of the fund, for the purpose of reviewing the proceedings of the past year. *Fifty subscribers shall form a quorum at such meeting.*

(Confirmed at the general meeting held on the 16th May 1886.)

"(*a*) That notices for the convening of general meetings shall ordinarily be served by leaving a copy of the notice at the registered residence of every subscriber living within the municipal limits of the City of Madras, and in the case of mofussil subscribers, living within the Presidency of Madras, the service shall be by posting the notices to the registered address of such subscribers, so that in the

ordinary course the notice may reach the destination seven days before the date fixed for the meeting. But in the case of all the subscribers of the fund, whether living in British India or elsewhere, publication of such notice in a local newspaper fifteen clear days before the day fixed for the meeting shall be deemed good service under section 78 of Act VI of 1882."

(Passed by the general meeting held on 16th September 1888.)

"(*b*) That subscribers of not less than ninety days' standing shall be alone entitled to vote at general meetings."

(Confirmed at the general meeting held on the 2nd November 1890.)

72. That the general meetings may also be convened by the managing committee, as often as the business of the fund may necessitate, and the managing committee shall be bound to convene general meetings at the requisition of not less than 50 subscribers, specifying the reasons for the same within thirty days from the date of the requisition.

(Confirmed at the general meeting held on the 2nd November 1890.)

Chairman of the general meetings.

73. That the general meetings shall be presided over by a chairman to be nominated from among the subscribers present at the meeting, and that he shall have a casting vote in all cases of an equal division of votes.

Secretary to the general meetings.

74. That the secretary of the managing committee shall act as the secretary of all general meetings.

Power of the general meetings.

75. That the general meetings shall have power of adding to, modifying, or rescinding any of the rules of the fund or proceedings or bye-rules made by the managing committee.

76. That all matters submitted to the general meetings shall be decided by majority of votes, and that such decision shall be final and binding on the subscribers.

Definition of certain terms.

77. That in the construction of these rules, words in the singular number shall include the plural, words in the plural shall include the singular, and words in the masculine gender shall include the feminine, except when the contrary appears from the context.

Exclusion of Table A.

78. That the Regulations of Table A in the first schedule annexed to Act VI of 1882 shall not be applicable to this fund.

FORM A. REGISTER NO.

Application for admission into the Fund as a Subscriber or Depositor.

To

THE SECRETARY TO THE MYLAPORE HINDU PERMANENT FUND (LIMITED).

Sir,

I request you will be good enough to admit me as a
to the above fund for shares.

2. Myself and my heirs or representatives will abide by the rules of the fund which are in existence and which may hereafter be made.

3. I declare that the following informations are correct:—

(*a*) *My name in full.
(*b*) †The names of my heirs under the law: son, wife, daughter, daughter's son, mother, father, and brothers (whether divided or not).
(*c*) My age.
(*d*) My father's name.
If female, husband's name.
(*e*) Religion and caste.
(*f*) ‡ My place of residence.
Postal address.
(*g*) My means of livelihood.
(*h*) The names of the members of the undivided family to which I belong.
If a female, the names of the husband's brothers.
(*i*) § The names and ages of those to whom I intend to make over all my interest in the fund on my death.
(*j*) If the subscriber is a minor, who is to pay and draw during minority?
(*k*) If already a subscriber before this application, the register number of those shares should be given.

MADRAS, Yours faithfully,

189 . (Signature as usual.)

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* This must be written clearly.
† The names of all these must be given.
‡ Change of residence should be reported.
§ Change of the intention under this head should be reported.

FORM B.

Application for Mortgage Loan on Immovable Property.

To

THE SECRETARY TO THE MYLAPORE HINDU PERMANENT FUND (LIMITED).

1. Name in full.
Age.
General Register No.
All shares held by applicant.
Father's name in full, alive or dead.
If female, husband's name, alive or dead.
Religion.
Caste.
Occupation.
Dwelling place, street and house No.

2. Amount of loan now required and in what ledger Nos. ?
Amount of former loan, if any.
And why it is required ?
Means of discharging the loan.

3. Whether the property is encumbered; if so, how; with whom; for how much; and for what purpose ?

4. Description and identification of the property to be pledged.

5. If landed property, whether ancestral or self-acquired, and who owned and held it for the last 12 years, and how they are related to applicant ?

6. Names of all co-heirs.
Father.
Sons, grandsons and daughters and their age.
Brothers, brother's sons (divided or undivided), their interest in the property, if any.
Dayadies and their interest in the property.
If female, husband's name.
Names of brothers of husband.
Names of dayadies of husband.
If property, her father's property, the father's dayadies and their interest in it.

7. Title-deeds of the property together with deeds of division, or gift, release, &c., relating to the property with quit-rent and assessment bills heretofore received.
Deed of partition between brothers and dayadies.
If female, deed of division between husband and his brothers and dayadies.
If property, her father's property deed of division between her father and his brother and dayadies.

8. Names of widows, children and others entitled to maintenance from the family, and the settlement made for them, if any.

9. Names of tenants (if the property be a house and names of people who cultivate for rent (if it be landed property) at the time of mortgage.
Will the tenants attest the documents that will be executed to the fund ?
Whether tenants have executed lease for a term ?
Whether tenants have advanced rent or loan ?

10. Will you deliver all quit-rent and asessment bills every time they are received ?

11. Will you every year submit the names of such as may hereafter occupy the property ?

12. Will you pay interest if money be reserved for you ?

(Signature.)

I return this form duly filled in and declare that what is stated herein is true to the best of my knowledge and belief.

Date, 189 . (Signature.)

FORM C.

Application for Mortgage Loan on Movable Property.

To

THE SECRETARY TO THE MYLAPORE HINDU PERMANENT FUND (LIMITED).

1. Name in full.
Age.
General Register No.
All shares held by the applicant.
Father's name in full, alive or dead.
If female, husband's name, alive or dead.
Religion.
Caste.
Occupation.
Dwelling place, street and house No.

2. Amount of loan now required and ledger Nos. in which required.
Amount of former loan, if any, and in what ledger Nos. ?
And why it is required?
Means of discharging the loan.

3. Names of all co-heirs.
Father.
If female, husband's name, alive or dead.
Sons and daughters and their age.
Brothers (divided or undivided) and their interest in the property, if any.
If female, names of brothers of husband.
Dayadies and their interest in the property, if any.
If female, names of dayadies of husband.

4. Whether the property is encumbered, and if so, how and with whom and for how much?

5. If jewels, who are the wearers thereof?

6. I shall pay interest if money be reserved for me.

7. I return this form duly filled in and declare that what is stated herein is true to the best of my knowledge and belief.

(Signature.)

Date, 189 .

BYE-LAWS.

Resolution, dated 3rd August 1873.

Resolved that in case of jewels, promissory notes be taken instead of bonds and renewed on the expiration of thirty months from the date of execution and that mortgagor's signatures be obtained in the key-guardian's book wherein the jewels will be retained.

Resolution, dated 9th November 1879.

That in cases of renewal of loans within seven years, half the estimate fee be levied which is to be seven annas for immovable property and six annas for movable property.

Resolution, dated 16th November 1879.

Resolved that the price of the rules be not charged to subscribers who rejoin within a month of the ceasing of an old account.

Resolution, dated 14th December 1879.

That subscribers are liable to pay interest even if they default by reason of the fund peons not calling at their residence.

Resolution, dated 11th June 1882.

Resolved that a fee of one anna be charged for every notice from the secretary to defaulters, and that when two such notices are not followed by payment, a vakil's notice be issued and a fee of one rupee be charged. Such fees shall be deducted in the first instance from all payments. (*Vide* Resolution No. 14, dated 9th July 1882.)

Resolution, dated 9th July 1882.

In modification of Resolution No. 18 of the 11th June 1882, resolved that a fee of one rupee be charged for notices issued by vakil in the case of subscribers who have taken a loan not exceeding Rs. 500, and that an additional fee of 8 annas be charged for every Rs. 500 or part thereof in excess of Rs. 500, the vakil's fee for notice not exceeding Rs. 3-8-0 in any case.

Resolution, dated 11th March 1883.

Resolved that when a benefited subscriber has a period not exceeding eighteen months to complete the full term of seven years, the security deposited may be returned on his paying the full amount of subscription and interest on loan for such remaining period provided he gives a letter stating that he will have no claim on such amount, that he will not claim the repayment of such sum, and that he consents to receive the amount that may become due to him on closing of shares at the end of seven years only and not before.

Resolution, dated 24th February 1884.

Resolved that in all cases of transfer where a loan has been previously taken by the original subscriber the transfer be effected only after the documents are renewed in the name of the transferee.

Resolution, dated 16th March 1884.

Resolved that a uniform fee of half anna be charged whenever a subscriber applies for a duplicate of any cash order.

Resolution, dated 14th September 1884.

Resolved that secretary is to receive deposits up to Rs. 50 till the 15th of each month from subscribers only, sums above Rs. 50 to be received only when necessary and when passed by the committee consisting of the secretary, president and one of the trustees.

Resolution, dated 15th February 1885.

Resolved that no depositor be allowed to deposit any sum in excess of Rs. 50 in a month, except with the sanction of the committee referred to in Proceedings, dated 14th September 1884.

Resolution, dated 25th October 1885.

Resolved that the Resolution, dated 11th March 1883, prohibiting the payment in advance of subscription and interest on loans for more than eighteen months be cancelled, and that the subscribers be allowed to pay their dues in advance for any length of time.

Resolutions, dated 7th March 1886.

Resolved that no motion to add, to modify, to rescind or alter any of the existing rules or bye-laws of the association shall in future be brought forward at the annual general meeting unless previous notice of the same has been left in the office of the fund on or before the 1st of January.

Resolved that the secretary shall specify all the subjects to be discussed at the meeting in the notice convening the same of which previous notice may have been received.

Resolved that no motion, to add, to alter, amend, rescind or modify any of the existing rules or bye-laws be discussed at the annual general meeting unless it is stated in the notice convening the same.

Resolution, dated 26th April 1886.

That a clear statement of several sources of profit be prepared and laid before the general meeting every year.

Resolution, dated 5th September 1886.

A single promissory note may be taken, though the loan may be for several numbers, the amount under each number being specified in it.

Resolution, dated 5th September 1886.

Interest on loans can only be charged for the month in which the payment is made or from the month in which money has been reserved, the same being intimated to the party in due time. A month according to the fund rules ends with the 20th of each calendar month.

Resolutions, dated 17th April 1887.

Resolved that the Appendix C (List of subscribers) be printed with the reports and circulated.

Resolved that the Appendix D (Statement of share calls) also be printed with the report and circulated.

Resolutions, dated 17th April 1887.

Resolved that the directors be requested to arrange for the annual inspection of the mortgaged houses under Rule 40 being completed by the 31st January of every year.

Resolved that the directors be requested to publish along with their annual report in future a Tamil translation thereof.

Resolution, dated 22nd April 1888.

Resolved that surveyors of jewels should get their fee, one anna per 100.

Resolutions, dated 20th January 1889.

Resolved that all deposits, even sums below Rs. 25, do bear interest, provided the sums are multiples of $3\frac{1}{8}$ odd; sums in excess of multiples of $3\frac{1}{8}$ shall bear no interest, such sums being shown in separate column in the monthly statement.

Resolved that all should execute rental agreement also before the loan is disbursed.

That death of a subscriber be regarded as a satisfactory reason for withdrawal.

Resolution, dated 8th September 1889.

Resolved that in granting simple loans, the words "paid in" in Rule 10 (*a*) be construed as heretofore as "paid in and payable" with the understanding that arrears be recovered at the time of disbursing simple loan, and that these loans be granted accordingly,

Resolution, dated 20th July 1890.

Resolved that every requisitionist for a general meeting shall state his No. and place of residence with a view to his being connected as a party to the requisition.

Resolution, dated 21st September 1890.

Resolved that the fund shall draw the interest due on Government promissory notes mortgaged with the fund.

Resolution, dated 18th October 1891.

That money be received from 7 A.M. to 5 P.M. on all days except on the 20th when money be received from 7 A.M. to 8 P.M.

Resolution, dated 31st July 1892.

That a subscriber who is a debtor to the fund whether in the shape of arrears or of loans, is at liberty to release and receive back at any time the security he may have given or lodged by substituting for it another security:

(1) By converting simple loans into mortgage loans.

(2) By converting mortgage loan in part or full into simple loan to the extent the subscriber is entitled to at the time of the conversion subject to the conditions laid down in Rule 10.

(3) By paying up in advance subscription which may be still due to complete his eighty-four calls and interest on the loan for the remaining period and substituting the guaranteed sum up to date payable to him at the end of eighty-four months for other security already given.

(4) By doing the same in part in one and the rest in other securities, the result being that the sum payable by him as loan and subscription at the end of eighty-four months shall in no case exceed the sum for realising which the security which is now cancelled or returned has been taken.

Resolution, dated 9th October 1892.

Resolved that in future intimation of the payment into our bank should be given to the fund on or before the 21st of the month for which payment is made, when the payment shall be entered as payment on the 20th.

Resolution, dated 27th November 1892.

Resolved that there shall be only one deposit book for each subscriber.

Resolution, dated 26th March 1893.

That certificate of non-encumbrances be insisted upon, when the amount of loan applied for is Rs. 5,000 and upwards.

Resolution, dated 30th July 1893.

Resolved that every bidder do deposit Rs. 10 before he is allowed to bid at an auction, and if he does not become the purchaser of the property, his deposit shall then be returned.

Bye-laws passed from 21st October 1893 to 20th October 1894 and embodied in that year's report.

1. Resolved that in all cases of re- and further-loans full fees be levied until the margin of the full amount of the loans grantable is exhausted.
2. That in granting loans, cheques and cash orders for arrears due to the fund be drawn in the name of the secretary or his assistant.
3. Since modified.
4. The directors resolve that in future separate receipts should invariably be granted where books are not produced or cannot be returned. When subscriptions are collected by bill-collectors, they should invariably grant separate receipts.
5. Since modified.
6. In future in cases where application for loan states that it is for repairs, the applicant should be asked to state the details for repair and the probable cost. The estimator and surveyors should satisfy themselves as to the necessity for the repairs and the probable cost.
7. Resolved that conversion of one security into another be allowed.

MEMORANDUM OF ASSOCIATION OF THE JAYA-LAKSHMI BHÁNDÁRA SUB-OFFICE, HOSPET (LIMITED).

I. The name of the association is *The Jaya-Lakshmi Bhándára Sub-office (Limited)*.

II. The registered head office of the association shall be situate in Hospet, Bellary district, and Branch office in Kampli, and in such other places in the division where the directors resolve in their meeting to establish them.

III. The objects for which the association is established are—

(*a*) to enable subscribers to save money;
(*b*) to facilitate small capitalists to make safe investments at a reasonable rate of interest;
(*c*) to grant loans to subscribers and others on security of jewels, Government promissory notes, immovable property situated within the jurisdiction of the District Munsiff's Courts of Narayanadevarakerry and Bellary, on personal or other securities approved of by the directors; and
(*d*) to do all other such things as are incidental or conducive to the attainment of the above objects.

IV. The liability of the members is limited.

V. The nominal capital of the association is Rs. 99,995, divided into 500 stock shares of Rs. 100 each to be paid at once, and 1,111 ordinary shares of Rs. 45 each to be paid in monthly instalments of Re. 1.

We, the several persons whose names and addresses are subscribed, are desirous of being formed into an association in pursuance of this memorandum of association, and we respectively agree to take the number of shares in the capital of the association set opposite our respective names:—

No.	Names, addresses and description of subscribers.	Number of stock shares taken by each shareholder.
1	C. H. Gond Row Sahib, Mirasidar, Honorary Magistrate, District Board Member, Hospet	15
2	A. Bheemasaina Row, First-grade Pleader, Bellary	5
3	D. Kristapah Naik, Sowcar, Chittavadigy	5
4	D. Raghavender Naik, Sowcar, Chittavadigy	5
5	R. Venkanah Kampali, Inamdar	5
6	G. Chinnapah, Honorary Magistrate, Hospet	5
7	G. Annaya Charya, Inamdar, Chittavadigy	33
8	S. Gundapah, Inamdar, Hospet	1
9	D. Jambanah, Ryot, Hospet	1
10	T. Soogurapah, Kampli, Sowcar	5
11	K. Rama Row, Kampli, Sowcar	2
12	T. Lingapah, Kampli, Sowcar	5
	Total ...	87

Dated the 1st day of August 1891.

Witness to the above Signatures.

M. SRINIVASA CHARYA,
Treasurer, J. L. Bhandara, Hospet.

ARTICLES OF ASSOCIATION OF THE JAYA-LAKSHMI BHANDÁRA SUB-OFFICE (LIMITED).

Head Office—Car Street, Hospet.

Branch Office—Kampli Main Bazaar.

1. The name of the bank is ' Jaya-Lakshmi Bhandára (Limited).'

2. The Registered Head office of the company will be situate at Hospet, and Branch office at Kampli, and in such other places in the division where the directors resolve in their meeting to establish them.

CAPITAL.

3. The capital of the company shall be Rs. 99,995 divided into 500 stock shares of Rs. 100 each, to be paid at once and 1,111 ordinary shares of Rs. 45 each to be paid in monthly instalments of Re. 1.

4. The company may, from time to time, by any special resolution passed at any general meeting, increase its capital by the issue of new shares, upon such terms and conditions as the company in general meeting may decide upon, and the new capital raised as aforesaid be considered as part of the original capital.

These rules shall be called the rules of the Jaya-Lakshmi Bhandára (Limited), which shall be registered under the Indian Companies Act of 1882.

It extends to all the immovable property situated within the jurisdiction of the District Munsiffs' Courts of Bellary and Narayandevarakerry.

SHARES AND SHAREHOLDERS.

1. That there shall be two classes of shareholders A and B : class A consisting of those who buy stock shares from the company by paying the amount allotted, by way of deposit, call or otherwise, called *shareholders* of the company; class B of those who continue to pay their subscriptions for a period of 45 months, called the *subscribers* of the company.

2. That persons wishing to become shareholders or subscribers to the bank should send in their applications to the agent of the company, duly filled and signed in full in the forms marked A and B appended to these rules. Printed copies of which can be had on payment of 3 pies per copy.

3. That an entrance fee of As. 8 and 4, for each stock and ordinary share respectively, and As. 4 for a rule book be paid by the members.

4. Every member shall, on payment of As. 2, be entitled to get a certificate under the common seal of the company signed by the agent and countersigned by two of the directors; and such certificate shall specify the share or shares allotted to the recipient and the amount paid thereon.

5. A lost or worn out certificate may be renewed or replaced on payment of As. 8 and 4 respectively for stock and ordinary shareholders.

6. No shares shall be registered in the name of more than one person.

7. The company shall not be bound to recognise any equitable, contingent, future or partial interest in any share, and other right in respect of a share than an absolute right thereto, in accordance with these presents, in the person from time to time registered as the holder thereof.

8. Shareholders and subscribers are at liberty to increase, decrease, transfer or sell, or withdraw their shares. Monthly subscriptions and interest, &c., payable to the bank shall be paid direct to the officer in charge of the treasury, on or before the evening of the 20th of each month.

9. Shareholders or subscribers who are minors shall be entitled to get their profit, &c., through their guardians.

INTEREST AND DEPOSIT ACCOUNTS.

10. That any person, whether a shareholder, subscriber or stanger, intending to become a depositor in the bank, shall make an application to the agent or manager in the prescribed form, and he shall be at liberty to deposit any sum not less than Rs. 25. Interest is charged at the following rates and no interest for broken periods of less than half a month is calculated.

Receipts are issued for sums of Rs. 25 and upwards, as under :—

For a deposit of Rs. 500 *and above.*	*For deposits of less than* 500.
For 12 months certain at $6\frac{1}{4}$ per cent.	For 12 months certain at 6 per cent.
,, 9 ,, ,, at $5\frac{3}{4}$,,	,, 6 ,, ,, at $5\frac{1}{4}$,,
,, 6 ,, ,, at $5\frac{1}{2}$,,	
,, 3 ,, ,, at $5\frac{1}{4}$,,	

11. All interest accruing upon deposits shall be either monthly credited to the subscription of ordinary shares, or paid quarterly in the months of January, April, July and October.

12. Deposits for charity purposes will be received at the discretion of the directors, and interest at 7 per cent. shall be allowed on such deposits, the truth of which must be certified to the satisfaction of the directors.

13. That the depositors who are not shareholders or subscribers shall pay an entrance fee of As. 4 whatever may be the amount of deposit, and all depositors will be provided with a receipt book on payment of As. 2 for a copy.

14. For deposits of Rs. 5,000 and more a special rate of interest of $7\frac{1}{2}$ per cent. per annum may be allowed by the directors if the amount is urgently needed for the use of the company.

15. That if fixed depositors fail to draw the amount at the stipulated time, it will be understood that the deposits have been renewed for another period.

16. That the depositors wishing to draw back the amount within the stipulated time, may have such sum as from the monthly collections, with order of priority, when all other payments will be stopped, and only half the rate of interest will be allowed for these broken periods.

CURRENT OR FLOATING ACCOUNTS.

17. Current accounts are opened with shareholders under the following rules :—

(1) Current accounts are opened with amounts of Rs. 50 and upwards, and interest at 3 per cent. per annum is allowed, when the balance does not fall below Rs. 100. Cheques may be drawn for Rs. 5 or its multiple.

(2) Pass-books and unstamped cheque forms are supplied to constituents on payment of As. 2 Moneys may not be withdrawn upon forms other than those furnished by the bank. Pass-books should be sent into the bank weekly or fortnightly for entries, or tendered with each lodgment of money. Depositors may not themselves make entries in the pass-books.

(3) Interest is not calculated for sums below 50.

(4) The bank cannot guarantee the non-payment of cheques lost or mislaid, but will do all in its power to protect its client.

(5) A memorandum should be sent with moneys paid into account. Forms for paying in moneys are supplied free of charge.

(6) Post-dated cheques cannot be acknowledged.

(7) The form of cheque supplied may not be altered.

(8) A notice of fifteen days at least must be given to draw cheques for sums above Rs. 200, on the bank in a month.

LOANS, DISCOUNTS AND ADVANCES.

18. That the directors shall have power to increase or reduce the rates of interest on deposits, temporary loans, as well as the rates of fees, &c., when it may be deemed necessary.

19. The collections of the bank shall be lent out to the subscribers and others under two heads of loans in the following proportions :—

(i) Permanent loans 75 per cent of the collections.
(ii) Temporary loans 25 per cent. of the collections.

20. Under the head of permanent loans, the following loans are issued :—

(*a*) Simple loans up to 95 per cent. of the total amount paid in by the member as subscription.

(*b*) That loans on security of jewels, Government promissory notes, and deposit receipt books of this bank shall be given to subscribers and others if the collections of the bank may permit.

The interest charged on simple loans under clause (*a*) is one pie per rupee per mensem ; on loans under clause (*b*) $1\frac{1}{4}$ pies.

(*c*) *Permanent* loans on immovable property are given only to the subscribers up to 75 per cent. of the estimated value of the property to be mortgaged.

Interest charged As. 10 per 100 per mensem.

N.B.—In case of Muhammadans an additional personal security is demanded.

(*d*) Permanent loans on personal security up to Rs. 50 on each ordinary share is given, provided the persons selected for such security are approved by the directors. Interest charged

As. 12 per 100 per mensem. No reason shall be assigned for rejecting any property or person offered as security.

21. *Temporary* loans shall be granted to subscribers as well as to strangers for limited periods not exceeding three months at the discretion of the agent and directors. Double rate of interest will be charged for failing to pay back the amount on the due date, if no other arrangements are made to extend the time.

22. Interest charged upon these loans is as under—

	For Subscribers—Strangers.
On jewel mortgages, &c.	1½ pies—1¾ per rupee per mensem.
On landed property	1¾ pies—2 per rupee per mensem.
Personal security	2 pies—2¼ per rupee per mensem.

23. Regarding the payment of loans to the outsiders, they shall be subject to the following conditions :—

On all loans whether personal or on real property interest shall be paid monthly, on failure of which compound interest shall be levied at 2 pies per month for every rupee or fraction of a rupee remaining unpaid.

24. *Small lot loans* shall be granted in lots of Rs. 10 each. No more than five of the small lots shall be lent to any individual for not more than a month. The total amount of transactions under this head shall not exceed Rs. 3,000.

The interest charged on the above loans is one anna for subscribers and 1¼ annas for others per lot for every half a month.

Double rate of interest will be charged on the expiration of the due date.

25. That three separate registers shall be kept to register the loan applications, *a*, *b*, *c*.

(1) In the register marked *a* all applications for simple loans shall be registered, in *b* and *c* all other applications for permanent and temporary loans shall be registered, and they shall be paid according to the number and date of applications received from them in each month.

26. That applications for reservation of right of priority of loans shall not be attended to, unless the party agrees to pay a fee of one anna for each month so reserved.

Advances for Agricultural Purposes, &c.

27. Advances for *agricultural* purposes shall be given to the ryots from the collections of the second month or any other months which the directors resolve in their meeting of each period. That these advances shall be subject to the following conditions :—

(*a*) Advances on security of landed properties are granted up to 75 per cent. of the estimated value of the property to be mortgaged.

(*b*) Of Rs. 100, debt may be repaid by five instalments of Rs. 25 each. Nine calendar months make one instalment.

(*c*) Interest will be levied at 4 pies per half a month for every rupee or fraction of a rupee in the instalment remaining unpaid with the time allowed.

(*d*) Arrangements will be made to recover the whole amount with interest at 12 per cent. per annum from the parties, if they fail to pay their instalment within the expiration of three months from the due date.

28. Under the above conditions implements for agricultural purposes will be supplied to ryots, if they agree to liquidate the amount in five instalments of Rs. 27 each.

Endowments.

29. Endowments for children on attaining a specified age combine the advantage of providing easy means of prosecuting study in the universities, when boys attain the age of 21, and for girls an easy means of providing dowry to their husbands on their attaining the age of 14.

30. Table showing the amounts premium for providing children with Rs. 1,000 on attaining 14 or 21 years of age.

(*Table omitted.*)

(*a*) Premia will be returned in case of casuality.
(*b*) Premia may be paid either yearly, half-yearly, quarterly or monthly.
(*c*) Premia less 25 per cent. will be returned, if the party is disabled to pay the instalments.
(*d*) A promissory note will be granted for every premium paid under the above system.

Family Pensions.

31. That if a person deposits Rs. 1,000 in the bank, he or his nominee would be entitled to receive a fixed monthly pension of Rs. 10 for a period of twenty years.

32. In case of death his legal heirs will be entitled for the remaining period.

33. Special arrangements can be made with the company on the above terms.

34. The following regulations of table A annexed to Act VI of 1882 and rules of the Parent Fund are incorporated with the foregoing articles, that is to say, regulations and rules.

Notices.

35. All notices or other documents requiring to be served by the company upon the shareholders may be served either personally, or by leaving the same for, or sending them through the post in a

letter addressed to each or any shareholder at his registered place of abode, and every notice sent through the post shall be deemed to have been served at the time on which, in the usual course of post, it would have been delivered.

36. All notices to be given on the part of shareholders shall be left at the registered office of the company or sent through the post.

Proceedings of Directors.

37. The directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings as they think fit and determine the quorum necessary for the transaction of business; but until some other quorum shall be determined, two directors shall form a quorum for the transaction of business. Questions arising at any meetings shall be decided by a majority of votes; in case of an equality of votes the chairman in addition to his original vote shall have a casting vote Three directors may at any time summon a meeting of the directors.

38. The directors may delegate any of their powers to committees consisting of such members of their body as they think fit; any committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may be imposed on them by the directors.

Management.

39. Under the general control of the directors and subject to any resolutions of the Board by way of exception or otherwise, the agents shall manage all the business of the company and do all things which they shall think fit for carrying out its objects, and unless otherwise prescribed by the directors they shall be entitled to exercise all or any of the powers by the regulations for the time being of the company conferred upon or vested in the directors; and no resolution of the directors shall invalidate any prior act of the agents which would have been valid if such resolution had not been passed.

40. That two of the directors who are not office bearers, shall retire at each annual meeting by rotation according to the dates of their appointments, and members so retiring, shall be eligible for re-election; but if experience shows that the change is not necessary, the directors may be allowed to remain as they are.

41. Should the conduct of any director be found unsatisfactory to the executive body, they shall remove such a director by a majority of votes of not less than three-fourths of the members present at a meeting and appoint another in his place; such proceedings being brought for the information of the shareholders at the next annual general meeting.

42. That the appointment of all the representatives, and the working establishment of the company, and their remuneration shall be made and fixed by the agents, and shall be binding of the company, unless objected to by all the directors (save the chairman) unanimously, in which case such appointment and remuneration shall be made or fixed by a general meeting of the shareholders, which may be convened immediately, if necessary.

The directors and agents shall, subject to the control of shareholders, have powers to borrow money and secure the payment thereof by means of the credit, property and assets of the corporation, to be dealt with by them for that purpose as they, subject to the control aforesaid, shall think fit.

Audit.

43. The accounts of the company shall be examined and the correctness of the balance sheet ascertained by one or more auditor or auditors to be elected by the company at the ordinary general meeting in each year.

44. If not more than one auditor is appointed, all the provisions herein contained relating to auditors shall apply to him.

45. The auditors need not be shareholders in the company. No person is eligible as an auditor who is interested otherwise than as a shareholder in any transaction of the company, and no director or other officer of the company is eligible during his continuance in office.

46. The election of auditors shall be made by the votes at their ordinary meeting, or if there are more than one, at their first ordinary meeting in each year.

47. The remuneration of the auditors shall be fixed by the company at the time of their election.

48. Any auditor shall be re-eligible on his quitting office.

That the accounts of the bank shall be closed once in nine months; and that after deducting the necessary contingent establishment charges, &c., from the gross income, the following guaranteed dividend of profit will be credited to the accounts of shareholders and subscribers, viz., Rs. 4-14-0 to each stock shares Re. 1 to each subscriber's ordinary share.

Of the remaining profit 1/16 portion shall be credited to the general account of the Parent Fund.

5/16 of the profit shall be divided among the stock shareholders, and carried to their credit in the accounts as an additional profit and an equal amount to the directors of the bank, 1/8 to the agents, and the remaining 3/16 to the office bearers as hereunder particularised:—

	Shares.
Manager	2
Trustee	1
Appraisers	2
Inspector	1

49. Previously to the directors' recommending any dividend or bonus, they may set aside out of the profits of the company such a sum as they think proper as a reserve fund.

50. No unpaid interest or dividend shall ever bear interest as against the company.

51. No member shall be entitled to receive payment of any dividend or bonus in respect of his share or shares, whilst any moneys may be due or owing from him to the company in respect of such share or shares, or otherwise howsoever.

52. The directors may deduct from the dividend or bonus payable to any shareholder all sums of money due from him to the company.

MISCELLANEOUS.

Following are the regulations of table A and the rules of the Parent Fund referred to in rule 34:—

Regulations: Nos. 4—5—6—7—8—9—10—17—18—19—20—21—22—23—24—25—26—27—28—29—30—31—33—34—35—36—38—39—40—41—42—43—44—45—47—48—49—50—51—52—53—54—55—56—57—60—63—64—65—66—67—69—70—71—73—74—75—76—77—78—79—80—81—82—83—84—85—87—88—89—90—91—92—93—94—95—96—97;

Rules: Nos. 14—15—16—17—21—25—26—27—28—29—30—43—44—45—46—58—59—60—61—62—63—64—65—66—67—73—74—75—76—80—81—82—83—84—85—86—87.

Printed forms referred to in the foregoing rules may be had on application to the agent or manager.

CHAPTER VII (MISCELLANEOUS).

LAW OF SOCIETIES IN GENERAL.

It was originally intended to give in full a translation with notes of the company and banking law of several countries of the West, and material has been gathered for the purpose; the idea has been abandoned for the present as space and time are wanting, and as the subject is not absolutely necessary for present purposes. As a partial collection of foreign company law the reader is referred to a Parliamentary report (Commercial No. 4 of 1889), which is a compendium or notice, in English and French, of company law in general for the following countries :—Austria-Hungary, Baden and Hesse, Bavaria, Belgium, Bulgaria, Coburg, Denmark, France, Germany, Greece, Italy, Montenegro, Netherlands, Portugal, Roumania, Russia, Saxony, Servia, Spain, Sweden and Norway, Switzerland, Turkey and the United States. This compendium is formed of the reports of the British embassies in the above countries, which either notice, abstract, translate, or send in French, the general company law for the above countries. A great deal is of course lacking in such a compendium for the proper understanding of the laws, and much is omitted that would be necessary for a complete view of the law affecting co-operative societies and credit or other banking.

DUTIES OF THE ITALIAN MINISTER FOR AGRICULTURE, INDUSTRY, AND TRADE.*

The Minister for Agriculture is also the Minister for Industry and Trade; his duties under the first branch are entered under 39, those under the second under 14, and those under the third under 19 major heads, each major head involving numerous sub-heads, and in fact, often including the work of a whole department such as 'woods and forests.' The major heads which are germane to the present study are mostly within the purview of the Minister as Minister of Industry and Trade, and are as follows:—

(1) fairs and markets;
(2) land (real) and agricultural credit;
(3) approval and supervision of, and other measures regarding banks and joint stock companies;
(4) measures for the benefit of the working classes, including a consultative commission respecting provident institutions and labour, the supervision of savings banks, the conversion of charitable institutions (opere pie) into savings banks or other provident institutions, and supervision over mutual benefit (friendly) societies, and other provident institutions.

As explained in Vol. I, the full provision of public fairs and markets [item (1) *supra*] is very important in assisting ryots to obtain the full value of their labour and to avoid the middleman who is too often a usurious broker and money lender.

In dealing with items (2), (3) and (4) *supra*, the Minister by his deputies enquires into and supervises institutions granting credit on real property (credito fondiario), and agricultural credit (credito agrario), and also supervises savings banks, being guided in each case by the laws and regulations upon the subject;† he makes enquiries into co-operative societies and co-operative popular banks; he publishes a monthly 'Journal (Bollettino) of savings banks,' the 'Annals of Credit and Provident Institutions,' and the monthly journal (Bollettino) of the same; also statistics of ordinary credit, of real and agricultural credit (triennial), of popular banks (triennial), of savings banks (triennial), and of friendly (mutual benefit) societies (quinquennial). ‡

He is also concerned with provident institutions for the protection and assistance of the working classes (including, of course, agriculturists); with life insurance companies; with mutual aid societies; with pension banks; with accident insurance funds; with institutions for encouraging and assisting working-men to found and join provident institutions. He is assisted by a consultative and advisory committee respecting provident institutions and labour, and institutes enquiries and researches relating to the introduction, illustration, and promotion of all institutions intended for the material and moral improvement of the working classes.

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* In Italy the department under the Minister for Agriculture, Industry, and Trade is very comprehensive, and appears happily to combine the executive power of individuals with the experience and consultative value of standing —and largely honorary—committees of experts. It appears indeed, as a whole, to be well worth study as a possible example in many respects for India.

In the present note only so much will be noticed as relates to the functions of this Minister and his department in the matters of credit, thrift and providence. For a catalogue with, occasionally, a brief description of the general duties of the department, the reader is referred to the following Parliamentary papers, viz., Commercial Nos. 12 of 1889, 24 of 1889 and 3 of 1894. The present note is taken partly from these papers and partly from a manual of the Barbèra series.

† The laws relating to these subjects in Italy will be found fully translated *supra*, and the supervision of the Minister is mentioned therein.

‡ The journals and annals are most valuable papers, usually issued monthly; in them is to be found information collected from all other countries.

Much of the work of the department in its numerous branches is done directly by the paid staff of inspectors, &c., and by its business organization, as, for instance, by the body of six commissioners or inspectors expressly appointed for watching the working of the savings and agricultural banks. But the Minister is not solely dependent on the departmental officers; on the contrary, he is, by means of consultative and advisory committees, in touch with the experience, advice, information and assistance of business experts in every matter falling under his comprehensive notice.* There are no less than twenty-three standing committees who assist the Minister of this department with their deliberations, enquiries, and advice, and the more important committees must be exceedingly valuable and exceedingly hardworked; such are the standing councils or committees of Agriculture, of Agricultural education, of Forestry, of Agricultural credit, of Industry and Trade, &c.†

The Committee for Agricultural Credit is consultative; its duties are to give its opinion upon the demands and claims of institutions or societies granting agricultural credit (that is, credit to agriculturists not based directly upon real (property) in regard to the issue of agricultural debentures; ‡ to study any improvements possible in the arrangements for agricultural credit; and to give its views on any other questions which may be laid before it by the Minister. The committee is composed of twelve members appointed by Royal Decree. The office of secretary is held by one of the inspectors appointed for the supervision of credit institutions. The minutes of the committee's discussion are published in the 'Annals of Credit and Providence.' §

The 'Committee for institutions of providence and for labour' is a consultative standing committee of eighteen members; the objects of its nomination are the study of the condition of the working classes; the provisions necessary to better their condition; the study and preparation of legal measures regarding savings banks, friendly societies, popular associations (co-operative) of credit, production, and consumption; the study of measures for securing the welfare of the working classes; and the searching out of all matters which may prove useful to the classes of labourers.

Thus far the functions of the Minister of Agriculture, &c., and of the consultative committees connected with the subjects of thrift, providence, and credit, have been dealt with, but it is deemed useful to add here the constitution and duties of the Council of Agriculture organized to assist the Minister and consisting largely of the Presidents of the Chambers of Agriculture (Comizi Agrari), the rules for and duties of which are also given: the extract is taken from Commercial 24 of 1889. No measure seems better adapted to assist agriculturists and the Director of Agriculture in all matters whether relating to agriculture itself or to rural economy in general, including in particular the organization of credit, than the establishment of a quasi-official Council for Agriculture recruited as in Italy but meeting much more often, and of practical Chambers of Agriculture recruited as mentioned in the succeeding extract. With such a Council and Chambers, endowed also with the express duty of encouraging and organizing rural associations for credit, supply, and sale of produce, it is believed that the work of the Madras Agricultural Department and the progress of rural economy would receive an extraordinary impetus. ‖

Council of Agriculture.—Its Constitution.

The Council of Agriculture, re-organized by Royal Decree No. 4423 of the 20th March 1887, consists of—

(*a*) Twenty-four Presidents of Chambers of Agriculture ("Comizi Agrari"). ¶

Six Presidents of Economic Societies, Agricultural Academies or Associations, Veterinary Societies, or other bodies established for purposes connected with agriculture, forests, or cattle-breeding.

The above are selected every year by the Minister from a list of all bodies entitled to representation in the Council.

(*b*) Fifteen Councillors, appointed annually by Royal Decree, selected from among the persons most versed in economic science and other branches of learning connected with agriculture.

(*c*) The following *ex-officio* members:—

(1) The Secretary-General of the Ministry for Agriculture, Industry and Commerce;
(2) The Director-General of Agriculture;
(3) The Chairman of the Zootechnic Commission;
(4) The Chairman of the Committee on Horse Breeding ("Comitato Ippico");
(5) The Chairman of the Council of Woods and Forests; and
(6) The Chairman of the Commission on Vine Culture and Wine Making.

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* It is in this matter that the Italian department of Agriculture, &c., and not only this particular department, is so noteworthy, and displays an example to India worthy, if not of imitation, of adaptation. The committees in question are not the associations elsewhere in this volume and in volume I (*see* "Agricultural Associations") recommended as being, on the one hand, independent bodies for the promotion of self and mutual help, and, on the other, auxiliaries to the Director of Agriculture for enquiry, for experiment, and for obtaining and disseminating information; they are standing semi-official bodies composed chiefly of non-official experts but with the assistance of officials and conducting official work (*cf.* the District Boards and Municipal Councils of the Madras Presidency). It has always appeared to the writer (*see* footnote in the section on 'Agricultural Associations') that the assistance of non-official experts though occasionally, obtained, is not obtained systematically by the official or semi-official association of such experts in standing committees. Standing committees of well selected experts are much more cautious and accurate in their advice and opinion than experts—who are not always experts—casually called upon for opinion, while it would be considered a distinct honour to be admitted to a share in the administration as the expert advisers and assistants of Government.

† The composition and duties of such of these committees as belong to the agricultural branch will be found in commercial No. 24 of 1889, and of some of those in the branches of Industry and Trade in commercial No. 12 of 1889. The description of the work of the Chambers of Agriculture and of the Council of Agriculture on pages 50 and 51, and pages 43 and 44 of commercial No. 24 of 1889, is especially interesting and suggestive; *see* this section *ad finem*.

‡ *See* Vol. I, pp. 130, 131; also the law of 1887-88 translated in the present volume.

§ These annals form valuable volumes in which the several questions are fully discussed.

‖ *See* Vol. I, Chapter VIII, pp. 218—221, especially the first paragraph in that chapter; also the chapter on Agricultural Associations, especially the introduction and the description of the "Irish Agricultural Organization Society" in the present volume.

¶ *See* the extract on Chambers of Agriculture, immediately succeeding.

A President and Vice-President, selected from the members of the Council, are appointed by Royal Decree, but whenever the Minister is present at a meeting he is entitled to the chair.

The Secretary is a Clerk in the Ministry of Agriculture, &c., nominated by the Minister.

Meetings.

The ordinary annual session of the Council of Agriculture takes place in April, but the Minister may summon extraordinary meetings at any other time.

One-half of the members form a quorum, and decisions are taken by a simple majority of those present. In case of an equal division, the President has the casting vote.

Attributions.

The Council of Agriculture is consulted respecting—

Questions affecting bodies representative of agriculture;

Questions relating to the administration of woods and forests and to Game Laws;

Measures of rural police;

Proposals for the cultivation or planting of waste lands;

The undertaking of irrigation works and agricultural improvements, the grant of public funds for such purposes, and the assignment of contracts for carrying out such improvements;

Appeals against the decisions of the commission for improving the Roman Campagna;

Questions relating to the improvement of breeds of cattle;

Measures intended to promote the development of agriculture, agricultural industries, and forest industries, or the interests of the agricultural classes.

The Council of Agriculture may also, of its own accord, propose and discuss measures which it may consider useful or necessary for the advancement of agriculture, the improvement of the condition of the rural population, the administration of woods and forests, or the development of cattle breeding and agricultural industries.

Representation on other Boards.

The Council of Agriculture is further represented—

On the Central Commission for Customs Valuation, by three delegates;

On the Council for the Assessment of Railway Rates, by three delegates;

On the Council for Agricultural Instruction, by four delegates;

On the Technical Council for the Salt and Tobacco Monopolies, by members nominated by the Minister of Finance; and

On the College of Customs Experts, by members nominated by the Minister of Finance.

Members of the Council who reside out of Rome are allowed their travelling expenses and a subsistence allowance of 15 lire (12*s.*) per diem when attending its sessions.

The proceedings of the Council of Agriculture are published in the "Annali di Agricoltura."

Chambers of Agriculture ("Comizi Agrari").

The Chambers of Agriculture ("Comizi Agrari") instituted in accordance with the provisions of the Royal Decree of the 23rd December 1866 (No. 3452), as amended by subsequent Royal Decrees of the 22nd June 1879, and the 3rd April 1884, are bodies created in every "circondario" (administrative divisions of a province corresponding to the French "arrondissements") for the purpose of advancing the interests of agriculture, and especially—

(1) Of advising the Government as to general or local measures calculated to improve the condition of agriculture;

(2) Of collecting and forwarding to the Central Government and to the representatives of their province in Parliament any information of agricultural interest;

(3) Of making known and introducing into their respective districts improvements in the systems of tillage, in agricultural implements, breeds of cattle, &c.;

(4) Of helping to carry out all measures tending to promote and protect the development of agriculture;

(5) Of promoting and organizing agricultural shows and competitions, and acting as judges; and

(6) Of promoting the necessary steps for improving and assimilating the customs in force among tenant farmers; for carrying into effect the Laws and Regulations respecting the health of cattle, for preventing the spread of epizootic diseases, and in general for the progress of agriculture.

Each commune within the "circondario," elects a representative to the Chamber of Agriculture; the chief town of the "circondario" or the seat of the Chamber, elects three representatives.

In addition to these local representatives, the Managing Board are authorized to admit as members any persons interested in the progress of agriculture who may apply to them for admission, but must report such nominations at the next general meeting.

The Managing Board of a "Comizio Agrario" consists of a President or Chairman, a Deputy Chairman, Secretary, and such number of Councillors as the Act of Constitution may determine.

The members of the Managing Board are elected for three years, one-third retiring each year, but the retiring members are re-eligible.

Besides the regular members of the Board, there are also elected substitutes who may speak at the meetings of the Board, but may only vote in the stead of any regular members who may be absent.

Chambers of Agriculture may form themselves into Associations with those of the same province, or with any others, for the purpose of effecting any special object, or generally of promoting the interests of agriculture in their province.

Chambers of Agriculture are recognized as 'institutions of public utility,' and are entitled as corporate bodies to acquire, hold, and sell property.

They have two regular sessions annually in April-May and in October-November.

At the former of these the final balance-sheet of the preceding year is discussed, as well as the proposals for the Chamber's action; and the subsidies to be asked of the Central Government and the provincial and communal authorities for the ensuing year.

(The Chambers of Agriculture correspond with the Ministry of Agriculture, Industry and Commerce through the Prefect or Sub-Prefect of their respective district; and with the communal authorities through the Syndic or Mayor of the chief town of their district.)

The second session is specially devoted to the approval of the estimates for the ensuing year, to the examination of the annual report submitted by the Board of Management, and to the election of the new members of that Board.

The annual report, as well as the estimates of receipts and expenditures for the coming year, must be approved by the "Comizio Agrario" in general session, and forwarded to the Ministry of Agriculture, &c., before the 10th December.

CHAPTER XXXVII OF THE GENERAL LAWS OF THE STATE OF NEW YORK.

The Banking Law.

ARTICLE.

1. General provisions (§§ 1–33).
2. Banks (§§ 40–92).
3. Savings banks (§§ 100–135).
4. Trust companies (§§ 150–163).
5. Building and mutual loan corporations (§§ 170–175).
6. Co-operative loan associations (§§ 180–191).
7. Mortgage, loan and investment corporations (§§ 200–205).
8. Safe deposit companies (§§ 210–216).

ARTICLE I.

GENERAL PROVISIONS.

SECTION.

1. Short title.
2. Definitions.
3. The banking department; superintendent.
4. Official seal of superintendent of banks.
5. Deputy clerks and examiners of the bank department.
6. Rooms and furniture.
7. Expenses, how defrayed.
8. Powers of superintendent.
9. Examination of securities deposited.
10. Unclaimed balances.
11. Examiners.
12. Examination and certificate as to payment of capital.
13. Affidavit to be made before commencing business.
14. Deposit of bonds or mortgages with superintendent.
15. Exchange of securities.
16. Publication of report of examiners.
17. Impairment of capital.
18. Proceedings against delinquent corporations.
19. Examination by order of court.
20. Reports.
21. Penalties for failure to report.
22. Publication of reports.
23. Annual report of superintendent.
24. Reports presumptive evidence.
25. Restrictions.
26. Calculation of profits.
27. Losses in excess of profits.
28. Publication of unclaimed dividends and deposits.
29. Change of location.
30. Approval and certificate of superintendent upon incorporation.
31. Permission and certificate of superintendent in case of foreign corporations.
32. Appointment of superintendent as attorney for service of process.
33. Appointment of receiver.

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1. *Short title.*—This chapter shall be known as the banking law, and shall be applicable to all corporations and individuals specified in the next section.

2. *Definitions.*—The term bank, when used in this chapter, means any monied corporation authorized by law to issue bills, notes or other evidences of debt for circulation as money, or to receive deposits of money and commercial paper and to make loans thereon, and to discount bills, notes or other commercial paper, and to buy and sell gold and silver bullion or foreign coins or bills of exchange.

The term, individual banker, when so used, means a person who has complied with the requirements of law, and is authorized by the banking department to engage in the business of banking, and is subject to the supervision of the superintendent of banks and the banking law.

The term savings bank, when so used, means a corporation only authorized by the laws of this state to receive money on deposit and pay such rates of interest thereon, and to invest the same in such securities and obligations, as may be prescribed by law.

The term, trust company, when so used, means any domestic corporation formed for the purpose of taking, accepting and executing such trusts as may be lawfully committed to it and acting as trustee in the cases prescribed by law, and receiving deposits of moneys and other personal property, and issuing its obligations therefor, and of loaning money on real or personal securities.

The term, building and mutual loan corporations or associations, when so used, means a corporation formed for the purpose of accumulating a fund for the purchase of real property, the erection of buildings, or the making of other improvements on lands, or to pay off incumbrances thereon, or to aid its members in acquiring real property, making improvements thereon or removing incumbrances therefrom, or of accumulating a fund to be returned to its members in specified cases.

The term, co-operative loan association, when so used means a corporation formed for the purpose of encouraging industry, frugality, home-building and the saving of money by its members, the accumulation of savings, the loaning of such accumulations to its members, and the repayment to each member of his savings when they have accumulated to a certain sum, or at any time when he shall desire the same, or the association shall desire to repay the same.

The term, building and mutual loan corporations or associations, and, co-operative loan associations, shall include every corporation, company or association doing business in this state and having for a part of its title or name the words building association, building and loan association, savings and loan association, savings association or co-operative bank, and every corporation, company or association whose stock is wholly or in part payable by a cumulative fund in regular or periodical instalments, or which is doing business in the form and of a character similar to that authorized by articles five and six of this chapter organized or incorporated in any state or country outside of this state.

The term, mortgage, loan or investment corporation, when so used, means any corporation other than an insurance corporation formed under the laws of this state or of any other state, and doing business in this state for the purpose of selling, offering for sale, or negotiating bonds or notes secured by deed of trust or mortgages on real property or choses in action, owned, issued, negotiated or guaranteed by it, or for the purpose of receiving any money or property, either from its own members or from other persons, and entering into any contract, engagement or undertaking with them for the withdrawal of such money or property at any time with any increase thereof, or for the payment to them or to any person of any sum of money at any time, either fixed or uncertain; and when applied to any foreign corporation doing business in this state shall include any association, co-partnership, joint-stock company, individuals or firms organized or existing under the laws of any other state or country, and engaged within this state in any such business.

The term, safe deposit company, when used in this chapter, means every domestic corporation formed for the purpose of taking and receiving upon deposit as bailee for safe-keeping and storage, jewelry, plate, money, specie, bullion, stocks, bonds, securities and valuable papers of any kind, and other valuable personal property, and guaranteeing their safety upon such terms and for such compensation as may be agreed upon by the company and the respective bailors thereof, and to rent vaults and safes and other receptacles for the purpose of such safe-keeping and storage.

3. *The banking department; superintendent.*—There shall continue to be a banking department charged with the execution of the laws relating to the corporations and individuals to which this chapter is applicable.

The chief officer of such department shall continue to be the superintendent thereof, to be known as the superintendent of banks, who shall be appointed by the governor, by and with the advice and consent of the senate, and shall hold his office for the term of three years. He shall not either directly or indirectly be interested in any such corporation, or as an individual banker. He shall receive an annual salary of five thousand dollars, to be paid monthly in the first instance out of the treasury on the warrant of the comptroller.

He shall, within fifteen days from the time of notice of his appointment, take and subscribe the constitutional oath of office and file the same in the office of the Secretary of State, and execute to the people of the state a bond in the penalty of fifty thousand dollars, with two sureties to be approved by the comptroller and treasurer of the state, conditioned for the faithful discharge of the duties of his office.

4. *Official seal of superintendent of banks.*—The Secretary of State shall proivde the superintendent of banks with an official seal. Every paper executed by him as such superintendent in pursuance of any authority conferred on him by law, and sealed with his seal of office, shall be received in evidence, and may be recorded in the proper recording offices in the same manner and with the like effect as a deed regularly acknowledged or proven.

5. *Deputy, clerks, and examiners of the bank department.*—The superintendent of banks shall employ from time to time such clerks and examiners as he may need to discharge in a proper manner the duties imposed upon him by law. They shall perform such duties as he shall assign to them.

6. *Rooms and furniture.*

7. *Expenses; how defrayed.*—All the expenses incurred in and about the conduct of the business of the department, including the salary of the superintendent and clerks, shall be charged to and paid by the corporations and individuals required to report to the superintendent under the provisions of this chapter in such proportions as the superintendent shall deem just and reasonable.

The expenses incurred and services performed on account of any such corporation or individual shall be charged to and paid by the corporation or individual for whom they were incurred or performed. If any corporation or individual shall not, after due notice, pay any such charges, the superintendent may apply the proceeds of the sale of or the dividends on any stock or the interest on any bonds and mortgages in his hands deposited by such corporation or individual to the payment of such charges, with interest, at the rate of six per cent.

The moneys so applied, and all moneys received by him in payment of such charges, shall be deposited and paid by him into the treasury of the state, to reimburse all sums advanced from the

treasury for such expenses, except moneys received from any corporation or individual banker for expenses incurred or services performed on account of any such corporation or individual, which moneys shall be applied by the superintendent in payment of such expenses and a verified account thereof included in his annual report.

If any such corporation or individual shall fail to pay such charges as herein required, and there are no stocks, bonds or mortgages in the department, the dividends or interest on which can be applied in payment thereof, the superintendent shall report to the attorney-general the failure of any such corporation or individual to pay such charges, and the attorney-general shall thereupon bring an action in the name of the people for the recovery of such charges.

8. *Powers of superintendent.*—Every corporation and individual banker specified in section two of this chapter shall be subject to the inspection and supervision of the superintendent of banks. He shall, either personally or by some competent person or persons to be appointed by him, to be known as examiners, visit and examine every such corporation and individual banker, other than savings banks, at least once in each year, and savings banks once in two years. On every such examination inquiry shall be made as to the condition and resources of the corporation, the mode of conducting and managing its affairs, the action of its directors, the investment of its funds, the safety and prudence of its management, the security afforded to those by whom its engagements are held, and whether the requirements of its charter and of law have been complied with in the administration of its affairs; and as to such other matters as the superintendent may prescribe.

He shall have power in like manner to examine every corporation and individual banker specified in section two whenever, in his judgment, its condition and management is such as to render an examination of its affairs necessary and expedient.

The superintendent and every such examiner shall have power to administer an oath to any person whose testimony may be required on any such examination, and to compel the appearance and attendance of any such person for the purpose of any such examination.

If the examination shall be made by the superintendent, or by one or more of the regular clerk in the department, no charge shall be made except for necessary travelling and other actual expenses.

The result of such examination of a savings bank shall be certified by the examiners, or one of them, upon the records of the corporation examined.

9. *Examination of securities deposited.*—The president or cashier of every such corporation, and every individual banker, shall once or more during each fiscal year, and at such time or times during ordinary business hours as he may select, examine and compare all securities deposited by such corporation or banker in the office of the superintendent with the books of the department, and, if found correct, execute to the superintendent a receipt stating the different kinds of such securities and the amounts thereof, and that they are in the custody and possession of the superintendent at the date of the receipt. Any individual banker unable to make such examination in person may, by written appointment, authorize an agent to make the same in his behalf, whose receipt shall have the same force and effect as if executed by the banker in person.

If any such corporation or individual banker shall refuse or neglect to make such examination during any fiscal year, the comptroller, Secretary of State and superintendent shall appoint some suitable and discreet person as agent for such corporation or individual banker, who shall make such examination, and if the securities so held by the superintendent shall be found to agree with the books of the department, such agent shall execute the receipt before mentioned, and it shall be of like force and effect as if executed by the president or cashier of any such corporation, or by any such individual banker, or by any agent appointed by him. Such corporation or individual banker shall pay on demand to the person so appointed and making such examination and executing such receipt, such compensation for his services and expenses in making such examination as the superintendent shall certify to be just and reasonable.

10. *Unclaimed balances.*—To be paid into the State treasury if unclaimed for six years.

11. *Examiners.*—Every examiner appointed by the superintendent shall, before entering upon the duties of his appointment, take and file in the office of the clerk of the county where he resides, the constitutional oath of office; and he shall forthwith examine fully into the books, papers and affairs of the corporation or individual banker specified in his appointment, and report on oath to the superintendent the result of such examination. No such examiner shall be appointed receiver of any corporation or individual banker whose books, papers and affairs he shall have examined pursuant to such appointment.

12. *Examination and certificate as to payment of capital.*—When any such corporation or individual banker shall have filed with the superintendent the requisite certificate prior to commencing business under the laws of this state, and shall have made the deposit, if any, required by law, the superintendent shall, before such corporation for individual banker shall be authorized to commence business, examine or cause an examination to be made in order to ascertain whether the requisite capital of such corporation or banker has been paid in, in cash. The superintendent shall not authorize such corporation or individual banker to commence business unless it appears to his satisfaction from such examination or other evidence satisfactory to him that the requisite capital has been in good faith subscribed and paid in cash.

13. *Affidavit to be made before commencing business.*—No such corporation shall commence its corporate business until its president and cashier or treasurer or secretary, or its two principal officers, by whatever name known, shall have made and subscribed an affidavit stating that the whole of its capital stock, or such portion thereof as by law shall be required to be paid or secured before the commencement of its operations, has been actually paid or secured to be paid, according to law. Such affidavit may be made before any officer authorized to administer oaths in the county where the corporation has its principal place of business, and shall be filed in the clerk's office of such county. Every such corporation shall cease to be a corporation if the affidavit above required shall not be made and filed within one year from the time its charter shall be granted.

14. *Deposit of bonds or mortgages with superintendent.*—Every such corporation, except banks, savings banks and domestic corporations specified in articles 5, 6 and 7 of this chapter, engaged

in receiving deposits of money in trust in this state, and required to make a report of its affairs to the superintendent of banks, shall, if it has not already done so, within six months from the passage of this chapter; and every such corporation hereafter proposing to engage in such business in this state shall, before engaging in such business, transfer and assign to the superintendent registered public stocks or bonds of the United States, or of this state, or of any city, county, town, village or free school district in this state, authorized by the legislature to be issued, to the amount in value, and to be at all times so maintained by the corporation, of 10 per cent. on its paid up capital stock.

Such stocks must be registered in the name of the superintendent, officially, as held in trust under and pursuant to this chapter, and the same shall be held by the superintendent in trust, as security for the depositors with and creditors of such corporation, and subject to sale and transfer, and to the disposal of the proceeds thereof by the superintendent, only on the order of a court of competent jurisdiction. Until the order of such court, authorizing such sale or transfer or other disposition thereof, the superintendent shall pay over to such corporation the interest which may be received on such securities. Should any corporation, at any time, have deposited with the superintendent more than the amount hereby required, the excess may be refunded. With the approval of the superintendent, such a deposit may be made by the corporation, either wholly or in part in bonds or mortgages satisfactory to the superintendent on improved, unincumbered, productive real property in this state, worth at least 75 per cent. more than the amount loaned thereon.

15. *Exchange of securities.*—The securities deposited by any corporation pursuant to the provisions of this chapter with the superintendent of banks in trust for any purpose, may be exchanged from time to time for other securities receivable as provided in this chapter; and so long as the corporation so depositing shall continue solvent and comply with the laws of the state, it may be permitted by the superintendent to collect the interest or dividends on such deposits, and from time to time to withdraw any of such securities on depositing with the superintendent other like securities, the par and market value of which shall be equal to the par and market value of such as may be withdrawn.

When any such deposit consists of bonds and mortgages, the president or authorized agent of every corporation depositing the same shall annex to every such mortgage his affidavit that the mortgage was made and taken in good faith for money loaned by the corporation which he represents, to the amount therein named, and that no part thereof has been since paid or returned; or if any part has been paid, the amount unpaid and that he has reason to believe and does believe that the premises thereby mortgaged are worth at least 75 per cent. more than the amount of the mortgage thereon; and the superintendent shall prescribe such regulations for ascertaining the title and value of the real property mortgaged as he may deem necessary.

16. *Publication of report of examiners.*—Whenever the superintendent shall deem it proper, a copy of any report made by any examiner shall be published in the state paper and in at least one daily newspaper in the city of New York, and in one newspaper published in the county where the principal place of business of such corporation or individual is located.

17. *Impairment of capital.*—Whenever the superintendent shall have reason to believe that the capital stock of any corporation or individual banker, subject to the provisions of this chapter, is reduced by impairment or otherwise below the amount required by law, or by its certificate or articles of association, he shall require such corporation or individual banker to make good the deficiency. He may examine or cause to be examined any such corporation to ascertain the amount of such impairment or reduction of capital, and whether the deficiency has been made good as required by him.

The directors of every such corporation upon which such requisition shall have been made shall immediately give notice of such requisition to each stockholder of the corporation, and of the amount of the assessment which he must pay for the purpose of making good such deficiency, by a written or printed notice mailed to such stockholder at his place of residence, or served personally upon him. If any stockholder shall refuse or neglect to pay the assessment specified in such notice within sixty days from the date thereof, the directors of such corporation shall have the right to sell to the highest bidder at public auction the stock of such stockholder, after giving previous notice of such sale for two weeks in a newspaper of general circulation published in the place or county where such corporation is located; but such stock shall not be sold for a smaller sum than the valuation put on it by the superintendent in his determination and certificate; and the necessary costs of the sale shall be paid out of the avails of the stock sold.

If any such corporation or individual banker shall neglect for sixty days after the superintendent shall have required such deficiency to be made good, to comply with such request, the superintendent shall report the fact to the attorney-general, who shall institute such action or proceeding against such corporation or individual banker as is now authorized in the case of insolvent corporations.

If, from any such examination or report, the superintendent shall have reason to conclude that any such bank or individual banker is in an unsound or unsafe condition to do banking business, he may forthwith take possession of such bank or individual banker's property and business, and retain such possession until the termination of the action or proceeding instituted by the attorney-general.

18. *Proceedings against delinquent corporations.*—If any such corporation or individual banker shall refuse to submit its books, papers and concerns to the inspection of any examiner, or if any officer thereof shall refuse to submit to be examined upon oath touching the concerns of such corporation or individual banker, or if it shall be found to have violated its charter, or any law of the state binding upon it, the superintendent may report the fact to the attorney-general, who shall institute such action or proceeding against such corporation or individual banker as is authorized in case of insolvent corporations.

If it shall appear to the superintendent that any such corporation or banker has violated its charter or any law of this state, or is conducting business in an unsafe or unauthorized manner, he shall, by an order under his hand and official seal, addressed to such corporation or banker, direct a discontinuance of such illegal or unsafe practices, and conformity with the requirements of its charter, and with safety and security in its transactions; and whenever it shall appear to the superintendent

that it is unsafe and inexpedient for such corporation or banker to continue business, he shall communicate the facts to the attorney-general, who shall thereupon institute such proceedings against the corporation or banker as are authorized in the case of insolvent corporations, or such other proceedings as the nature of the case may require.

19. *Examination by order of court.*—The creditors and shareholders of any such corporation whose debts or shares shall amount to one thousand dollers may make application to the supreme court by a verified petitition setting forth facts showing that an examination of the affairs of the corporation should be made, and the court may thereupon, in its discretion, order such an examination to be made by a referee for the purpose of ascertaining the safety of the investments and the prudence of the management of the corporation. The result of every such examination, together with the opinion of the referee thereon, shall be published in such manner as the court shall direct. The court shall make such order in respect to the expenses of the examination and publication as it may deem proper.

20. *Reports.*—Every corporation and individual banker subject to the provisions of this chapter shall make a written report to the superintendent of banks, in such form and containing such matters as he shall prescribe. In the case of a bank or individual banker, the superintendent shall, at least once in every three months, designate some day therein in respect to which the report shall be made. If a savings bank, trust company or safe deposit company, such report shall be made semi-annually on or before the twentieth day of January and July in each year, and shall contain a statement of its condition on the mornings of the first days of January and July preceding. If a savings bank, such report shall state the amount loaned upon bond and mortgage, together with a list of such bonds and mortgages and the location of the mortgaged premises, as have not been previously reported, and also a list of such previously reported as have since been paid wholly or in part, or have been foreclosed, and the amount of such payments respectively; the cost, par value and estimated market value of all stock investments, designating each particular kind of stock; the amount loaned upon the pledge of securities with a statement of the securities held as collateral for such loans; the amount invested in real estate, giving the cost of the same, the amount of cash on hand, and on deposit in banks or trust companies, and the amount deposited in each; and such other information as the superintendent may require.

Such report shall also state all the liabilities of such savings corporation on the morning of the said first day of January and July; the amount due to depositors, which shall include any dividend to be credited to them for the six months ending on that day, and any other debts or claims against such corporation which are or may be a charge upon its assets. Such report shall also state the amount deposited during the year previous, and the amount withdrawn during the same period; the whole amount of interest or profits received or earned and the amount of dividends credited to depositors, together with the amount of each semi-annual credit of interest, and the amount of interest that may have been credited at other than semi-annual periods, the number of accounts opened or re-opened, the number closed during the year, and the number of open accounts at the end of the year, and such other information as may be required by the superintendent.

If a trust company or safe deposit company, such report shall contain such particulars as the superintendent may prescribe.

If a co-operative loan association, or a building and mutual loan corporation, or a mortgage, loan or investment corporation, such report shall be made annually on or before February first in each year, and shall contain a statement of its condition on the first day of January preceding. The superintendent may, for good cause shown, extend the time for making any such report not exceeding thirty days.

Every such report shall be verified by the oath of the president and cashier or treasurer of such corporation or by such individual banker, to the effect that the same is true and correct in all respects, and that the usual business of such corporation or banker has been transacted at the location required by this chapter, and not elsewhere.

The superintendent shall serve a notice designating the day in each quarter when a report shall be made upon each bank and individual banker required to report to him by delivering the same to some officer or clerk thereof at their respective places of business or by depositing the same in the post-office inclosed in a post-paid wrapper and properly directed to each of them, or some officer thereof, at their places of business respectively.

21. *Penalties for failure to report.*—If any bank or individual banker shall fail to make such report within ten days from the day designated for the making thereof, or to include therein any matter required by the superintendent, or if any savings bank or trust company shall fail to make such report within the time required by this chapter, or to include therein any matter required by the superintendent; every such delinquent bank, banker, savings bank or trust company shall forfeit to the people of the state the sum of one hundred dollars for every day that such report shall be delayed or withheld, and for every day that it shall fail to report any such omitted matter. Every other corporation subject to the provisions of this chapter which shall fail to make such report within the time herein required, or to include therein any matter required by the superintendent to be stated, shall forfeit to the people the sum of ten dollars for every day for which such report shall be delayed or withheld, and for every day that any such omitted matter may remain unreported.

Banks, including saving banks are liable to a fine of £20 *per diem*; other corporations under section 2 *supra* £2 *per diem.*

The moneys forfeited by this section, when recovered, shall be paid into the state treasury to be used to defray the miscellanous expenses of the department.

If any corporation or individual banker shall fail to make two successive reports as herein required, every such corporation shall forfeit its charter, and every such individual banker shall forfeit his privileges as such banker; and every such corporation or individual banker may be proceeded against and the affairs of such corporation closed, and such individual banker be restrained from continuance in business, in the same manner as an insolvent corporation or individual banker may be proceeded against. In case of the failure of any corporation or individual banker to make any report required

of him by law, the superintendent shall immediately cause the books, papers and affairs of such corporation or banker to be examined as directed by section 8 of this chapter.

22. *Publication of reports.*—Within thirty days after any such report shall be made, the superintendent shall, with the exception of the reports made by savings banks, publish a summary statement thereof in a paper at Albany, in which notices by state officers are required by law to be published, and the separate report of each corporation and individual banker shall be published by such corporation or individual banker in at least one newspaper of the place where its principal place of business is located, if there be one; if not then in the newspaper published nearest where the bank is located. Such summary statement shall contain the items of capital, circulation, if any, and deposits, specie, and cash items, public securities and private securities and such other matters as may be necessary to inform the public as to the financial condition and solvency of any such corporation or banker, or which the superintendent may deem proper to include therein. In the publication of such statements, the superintendent shall arrange the individual bankers in a separate class, and specify the name and place of business of each, and the names and residences of the general partners.

23. *Annual report of superintendent.*—The superintendent shall report annually to the legislature, at the commencement of its first session:—

(1) A summary of the state and condition of every corporation and individual banker required to report to him and from which reports have been received the preceding year, at the several dates to which such reports refer, with an abstract of the whole amount of capital returned by them, the whole amount of their debts and liabilities, specifying particularly the amount of circulating notes outstanding, if any, and the total amount of means and resources, specifying the amount of specie held by them at the times of their several returns, and such other information in relation to such corporations and bankers as, in his judgment, may be useful. Such corporations shall be divided into classes so as to correspond with the designations thereof in section 2 of this chapter.

(2) A statememt of all banks and individual bankers and other corporations and individuals authorized by him to do business during the previous year, with their names and locations and dates of incorporation, and particularly designating such as have commenced business during the year.

(3) A statement of the banks and individual bankers whose buisiness has been closed during the year, with the amount of their circulation redeemed and the rate per cent. of such redemption, and the amount outstanding.

(4) Any amendments to the banking law, which, in his judgment, may be desirable.

(5) The names and compensation of the clerks employed by him, and the whole amount of the expenses of the department during the year, and the amount, if any, for which the treasury shall be in advance.

Such report shall be made by or before the last day of the year, and the usual number of copies for the use of the legislature shall be printed and in readiness for distribution by the printer employed to print legislative documents, and one thousand copies shall be printed for the use of the department, the expense of which shall be charged among the general expenses of the department.

Such report may be divided into parts, and the part or parts containing the reports of corporations other than banks may be made on or before the first day of March in each year.

24. *Reports presumptive evidence.*—Every official report made by the superintendent to the attorney-general, and every report duly verified of any examination made, shall be presumptive evidence of the facts therein stated in all motions in any action or proceeding for the appointment of a temporary receiver of any corporation to which such report relates.

25. *Restrictions.*—No corporation or banker to which this chapter is applicable shall:

(1) Make any loan or discount to any person,* company, corporation or firm, or upon paper upon which any such person, company, corporation or firm may be liable to an amount exceeding the one-fifth part of its capital stock actually paid in and surplus; but the discount of bills of exchange drawn in good faith against actually existing values, or of commercial or business paper actually owned by the person negotiating the same shall not be considered as a part of any such loan or discount.

(2) No such corporation nor any of its directors, officers, agents or servants, shall directly or indirectly purchase or be interested in the purchase of any promissory note or other evidence of debt issued by it for a less sum than shall appear on the face thereof to be due. Every person violating the provisions of this sub-division shall forfeit to the people of the state three times the nominal amount of the note or other evidence of debt so purchased.

(3) No president, director, cashier, clerk or agent of any such corporation, and no person in any way interested or concerned in the management of its affairs, shall as individuals discount, or directly or indirectly make any loan, upon any note or other evidence of debt, which he shall know to have been offered for discount to such corporation, and to have been refused. Every person violating the provisions of this sub-division, shall, for each offence, forfeit to the people of the state twice the amount of the loan which he shall have made.

26. *Calculation of profits.*—Interest unpaid, although due or accrued on debts owing to the corporation or banker, shall not be included in the calculation of its profits previous to a divided.

The surplus profits, from which alone a dividend can be made, shall be ascertained by charging in the account of profit and loss and deducting from the actual profits:

(1) All expenses paid or incurred, both ordinary and extraordinary, attending the management of its affairs and transaction of its business.

(2) The interest paid, or then due and accrued, on debts owing by it.

(3) All losses sustained by it. In the computation of such losses, all debts owing to it, shall be included which shall have remained due, without prosecution, and upon which no interest shall have been paid for more than one year, or on which judgment shall have been recovered that shall have

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* This appears to mean to any one person.

remained for more than two years unsatisfied, and on which no interest shall have been paid during that period.

27. *Losses in excess of profits.*—All losses sustained by any corporation or banker subject to this chapter, in excess of its undivided profits then realized and possessed, shall be charged as a reduction of its capital stock, and no dividend shall thereafter be made on its shares of stock until the deficit of capital so created shall be made good, either by the recovery of the moneys charged as lost or from the subsequently accruing profits of the corporation.

28. *Publication of unclaimed dividends and deposits.*

29. *Change of location.*

30. *Approval and certificate of superintendent upon incorporation.*—No corporation to which this chapter is applicable shall be incorporated hereunder, or transact any business in this state other than such as relates to its formation, without the written approval of the superintendent of banks and without his written certificate stating that it has complied with the provisions of this chapter and with all the requirements of law, and that it is authorized to transact within this state the business specified therein, and that such business can be safely intrusted to it, which certificate shall be recorded in the office of the superintendent in a book to be kept by him for that purpose and a certified copy thereof filed in the office of the clerk of the county where the corporation is to have its principal business office.

New.

31. *Permission and certificate of superintendent in case of foreign corporations.*

32. *Appointment of superintendent as attorney for service of process in the case of foreign companies or associations only.*

33. *Appointment of receiver.*—If it is made to appear upon application of any creditor or shareholder in any such corporation, company or association, residing in this state that the funds on deposit with the superintendent of banks are insufficient to pay in full the creditors and shareholders residing in this state, or that it is insolvent, or has suspended business, or that insolvency or bankruptcy proceedings have been taken against it either voluntarily or involuntarily, the supreme court may, upon due notice to the attorney-general, and upon such notice to the corporation, company or association as the court shall prescribe, appoint a receiver of such funds; and pending such application, the court or any judge thereof may enjoin the commencement or prosecution of any other action or proceeding against such corporation, company or association. Upon the qualification of such receiver, the superintendent of banks shall pay over to him the funds remaining in his hands less any charges which he may have against the same, and the receiver shall distribute such funds among the creditors and shareholders of the corporation, company or association residing in this state in the manner prescribed by law for the payment of creditors in the case of voluntary dissolution of a corporation.

USURY LAWS.

GERMANY.*

I. The following sections shall be added to the Penal Code :—

302. (*a*) Whoever, taking undue advantage of the distress, simplicity, or inexperience of another, (Wer unter Ausbeutung der Nothlage, des Leichtsinns, oder der Unerfahrenheit eines Anderen) makes

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* A study of the organization of credit necessarily includes a consideration of the question of usury, for which, indeed, the organization of credit through association is a principal remedy. In India the usury problem is demanding, and, to some extent, receiving attention; enquiries, commissions, and legislative bills are attacking the problem, and there are clear indications, such as the Government order which initiated this report, the recent proposal in the legislature to revive the law of 'dámdupat,' and other enquiries and bills now in hand, that some legislative answer will be attempted to the vexed question of usury. Whether the law can successfully deal with the problem is in itself a problem, and it is wholly doubtful whether direct legal interference may not exacerbate the evils of usury and hinder the solution of the difficulty. What, for instance, is usury? can the law define it? can the law so differentiate between true usury and *bonâ fide* insurance that the courts can punish the one and assist the other? can usury be so defined and legislated for, that its thousand forms and wiles can be detected and circumvented?

It is not contended that the law cannot at all interfere in the money-lending trade; on the contrary, it is believed that without the assistance of the law in various ways, contracts will too often be inequitable, business will be misconducted; wealth and poverty, greed and necessity, knowledge and ignorance cannot do business on equal terms if the law remains neutral or careless.

The old laws, of which those repealed in India in 1855, and those still existing in France, the United States, and elsewhere, are specimens, are mere rough-and-ready expedients; they simply laid down an arbitrary maximum, *e.g.*, 6 per cent., for interest, and rates exceeding such maximum were called usurious. The inutility of such feeble efforts is notorious; they dealt merely with one form of usury, *viz.*, that relating to money-loans, and even in that respect were and are as ludicrously inefficient as a mop to keep back the sea. This was recognized in England and in India, and the repeal of the old laws followed (in 1855) in India; Germany followed suit, and absolutely repealed her usury laws in 1867, leaving the rates of interest wholly free.

But in 1879 Germany took fright at the exploitation of society, especially of the small folk, by the usurer, and in 1880 the legislature passed a new and drastic law against usury, in which, however, wholly new ground was taken. The law no longer fixed an arbitrary maximum for interest, but, framing a certain definition of usury, left it to the courts to decide in each case whether, according to the circumstances of the case, usury had been practised: this law will be found translated in the text. It was, however, found that the law only dealt with cases of usury in money, and a further law was passed in 1893, amending the former law. To judge by the reports of economists, newspapers, and societies, especially the "Verein für social-politik," the new law has had little or no effect in restraining usury, while many consider that it has aggravated the terms of usury, since there is now a heavy personal risk to be insured against in all cases of hard bargain to which the small folk are incessantly liable. As a matter of fact, between 1882 and 1890 989 persons were prosecuted under the new law of whom 466 were convicted and 523 acquitted.

Austria followed the example of Germany, and Russia, in 1893, passed a similar law.

These laws are translated here merely for what they are worth, and as a contribution to the Indian enquiry regarding credit and usury; it is hoped to deal with the subject of usury more fully elsewhere.

The two laws of 1880 and 1893 will not be given separately, but only that of 1880 as amended by that of 1893.

to that other a money-loan or consents to prolong the period of a money-loan,* or makes any other contract having a similar business object (*i.e.*, credit), and in virtue of such loan, or contract, obtains or agrees to obtain material advantages (Vermögensvortheile) which, considering the circumstances of the case, are extraordinarily disproportionate (in auffälligem Missverhältniss) to the service rendered, shall be punished as a usurer with imprisonment which may extend to six months, and also with fine not exceeding £150. The court may also sentence the accused to the loss of his civil rights.†

302. (*b*) Whoever, for himself or for another, disguises the advantages mentioned in 302 (*a*), or obtains an entry of the same in a promissory note or bond, shall be punished with imprisonment which shall not exceed one year and also with fine not exceeding £300. The loss of civil rights may also be decreed.

302. (*c*) The same penalties as are entered in 302 (*a*) and (*b*) are also awardable to any one who having knowingly acquired a debt (claim, Forderung) bearing usurious interest either sells the same to a third party, or makes use of his usurious advantage.

302. (*d*) Whoever practises usury as defined in sections 302 (*a*) to 302 (*c*), habitually or as a business, shall be punished with imprisonment for not less than three months, and also with fine which shall not be less than £25 or more than £750. He shall also lose his civil rights.

302. (*e*) The same penalty as in 302 (*d*) shall be inflicted on any one who, in any contract not mentioned in section 302 (*a*), habitually or as a business takes advantage of the embarrassments, simplicity, or inexperience of another, to obtain the promise of or to obtain, for himself or for another, profits which under the circumstances of the case, are gravely disproportionate to the service rendered.

II. Section 360 (12) of the Penal Code (1876) shall be modified as follows :—

360 (12). Whoever, as a pawn broker (Pfandleiher) or second-hand dealer (Rückkaufshändler), acts in the exercise of his business, contrary to the regulations governing such business especially in demanding a rate of interest higher than that fixed by law or by the orders of competent authority, shall be punished with fine which may extend to £7–10–0, or with imprisonment.

Section 367 (16) shall run as follows :—

367 (16). Whoever contravenes the police regulations regarding the holding of public sales, or regarding the distribution of spirituous liquor before and during such sales, shall be punishable with fine which may extend to £7–10–0 or with imprisonment.‡

III. Contracts which contravene sections 302 (*a*), (*b*) and (*e*) are null and void.

All usurious profits paid by or for a debtor under sections 302 (*a*) and (*e*) shall be returned to him and shall bear interest from the date of the original payment. All persons who have practised or participated in usury shall be jointly responsible, save only that a person guilty of the offence contemplated in 302 (*c*) is only responsible for such amount as he or other co-contractor shall have received. The (civil) responsibility of any person (connected with the usurious bargain) who shall not be criminally liable for usury, shall be determined by the general law.

The right of demanding restitution expires at the end of five years from the date of the original payment.

The creditor in a cancelled contract has the right of demanding repayment of the principal actually lent, such repayment being secured by the guarantee (pledge, mortgage or surety) given by the debtor. Any other rights of the creditor which, according to the provisions of the Civil Code, are not cancelled by the voidance of a contract, are not affected by the present law.

IV.§ Whoever makes a regular business of trading in money or in credit must, at the close of every year, make up the account of every person who has dealt with him and has become his debtor,

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* The law of 1880 did not contain the sentence following the words 'money-loan.' It was found that the law did not cover the numerous malpractices attending rural credit and dealings, especially loans repayable in kind, or loans and contracts relating to cattle. For example, at public sales of land the auction price is usually payable by instalments; the sale-purchaser pays so much down and the rest by bills: since the sale-vendor is, *ex hypothesi*, in urgent need of money (or he would not have allowed the sale), he endeavours to discount these small bills, and as banks do not exist for such small and local business, the money-lender is able to buy these notes at usurious discount: hence a ruinous loss to the sale-vendor, and the beginning of danger to the sale-purchaser, who now has the money-lender as creditor. Similarly, when cattle are bought on credit, any failure to pay an instalment may, by the contract, result in the instant reversion of the cattle to the vendor. Similarly, the money-lender frequently agrees to lend seed-corn, or to prolong a loan, upon the promise of usurious consideration in kind at harvest, or he debits the borrower with an excessive value for goods sold or lent and credits them with proceeds far below the market value for the produce repaid. These and other transactions are called 'Sachwucher' (usury in kind), usury in money being 'Creditwucher.'

† It will be observed that the court has to decide in each case whether, under the circumstances of that case, usury has been practised, the position of the borrower as regards the lender, *viz.*, his distress, &c., being especially considered. Usury is so protean in its forms, so elusive in its wiles, that it appears hopeless for the law to attempt to define it; hence, since a usury law was considered necessary, the only alternative was to grant to the courts the power to determine whether, in any given case, there has been usury, a general suggestion alone being given as to the circumstances in which a contract might be usurious.

The severity of the penalties are noteworthy: imprisonment and fine are both necessary, and civil rights may also be lost.

‡ It is a common device at land auctions in Europe to provide free liquor for those attending the sale; the consequence, of course, is reckless competition. In a report regarding the credit question in Alsace-Lorraine it is stated that the 'Jews' who have obtained the sale of an estate, split up the estate into small lots, ply the bidders with liquor, and thus obtain most absurdly high bids, so that they derive large profits not merely from the sale itself but from the unfortunate bidders who are unable to meet the subsequent calls for payment.

§ This section contains one of the most important provisions of the new law, and one which may usefully be adopted, or, rather, which should be adopted, in any usury law which may be passed for India. It has already been elsewhere advocated by the writer, and must prove of extreme value, especially if enacted in conjunction with a provision for enforcing the keeping of proper accounts in bound and duly verified books, in which the account of each individual shall be properly ledgered. This latter provision is universal in the commercial codes of the European continent.

The present section is aimed at those tricks and delays of the money lender by which a debtor is kept in ignorance of the state of his account, so that interest and compound interest accumulate to an overwhelming sum, while opportunity is, by such delays, afforded to the creditor of making omissions or false entries which, from lapse of time, the debtor is unable to prove or disprove.

The exceptions in the text are entered to prevent the provision from interfering with respectable business firms.

and, within three months from the close of the year, must send to such person an extract in writing showing not only the total due but also how such total has been arrived at.

Whoever wilfully neglects to comply with this regulation shall be punished with fine which may extend to £20, or with imprisonment, and shall lose his claim to interest for the past year on all items which ought to appear in such extract.

The above provisions are not applicable—

(1) when there has been but one single and closed transaction during the year between the creditor and debtor, and when the debtor, holds a written document reciting the amount and origin of the debt;

(2) to public banks, banks of issue, land and mortgage banks, public loan institutions, credit and savings banks belonging to public bodies and to registered co-operative societies (Genossenschaften) in so far, as regards the last class of society, as concerns transactions of the societies with their members;

(3) to business transactions between business men whose business name is registered in the trade register.

V. Clause 1 of paragraph 3 of section 35 of the commercial code is modified as follows:—

The same restriction * is applicable to those who deal habitually in the leasing out of cattle, in the buying and selling of cattle, and in buying and selling plots of land.

Russia.†

1707. A person is guilty of usury (1) when he grants a loan under such conditions as, to his knowledge, constitute an extremely unjust burden on the borrower; (2) when, being an habitual money lender, he disguises the excessive interest either by lumping it with the principal, or by entering it as expenses of maintenance, or otherwise. Such person shall be liable to imprisonment for a term of from two to six months.‡

Any person who acquires a usurious bond knowing it to be usurious, or proceeds to recover upon it, or obtains payment thereof, shall be liable to the same penalty.§

1708. Any person found guilty of making a business of the offences contemplated in the first part of the preceding section, shall be liable to be deprived of all rights and special privileges acquired either personally or by virtue of his position, and to exile to some distant province other than Siberia, or at least to a penalty of the first or second class mentioned in section 33 of this code.‖

1709. Interest which does not exceed 12 per cent. per annum shall not be considered usurious. A bond impeached of usury shall be considered null and void, but the lender is entitled to the repayment of the principal which he shall have actually lent less any repayments already made.

Bulgaria.

The legislature of Bulgaria is now (1896) engaged in considering a new usury law. The bill provides that the demand of interest above 12 per cent. per annum shall be punishable with imprisonment for a period not exceeding six months, and with fine of from £4 to £20. Not only does this law forbid usury in the case of money loans, but by its provisions any one who buys standing crops at 10 per cent. below their value according to prices ruling at the time, is liable to the same punishment, as well as any person selling goods for a subsequent payment in produce, who makes an excessive profit from his customer. Further, any person carrying on such transactions under the cover of written acknowledgments of debt, bills of exchange, &c., is liable to imprisonment up to two years. (*Board of Trade Journal*, January 1896.)

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* Section 35 of the code authorizes the proper authority to forbid persons to exercise certain trades or industries when there is evidence that such persons are not of sufficiently good character: such trades are the teaching of dancing, swimming, &c. To these trades are now added those entered in the text. The new addition is aimed at those persons who exploit the rural classes in the supply of cattle, or in buying up land for the purpose of re-selling it.

† Usury in Russia is terribly prevalent, and the 'Jews' exploit the peasantry beyond measure. Hence, while Government on the one hand is endeavouring to find some mode of supplying or promoting cheap agricultural credit, on the other it is attempting to repress usury by legal enactment. The text gives the provisions of a bill translated from the French; this bill became law as an addition to the Penal Code in 1893, but the text of the law is not available: it is stated, however, that the substance of the bill is contained in the law which is somewhat lengthier, and contains provisions against habitual usurers, against those who employ (at auctions?) intoxicating liquors (*cf.* the German law, article II), &c.

‡ The law, as passed, provides that, in the case of rural usury, culpability shall depend upon the question whether the lender, by taking advantage of the embarrassment of the borrower, has obtained, whether in money, in kind, or in labour, undue advantages contrary to local custom. This latter phrase ('contrary to local custom') is not only vague but, since local custom has usually allowed usurious terms, it does not hinder usury.

§ This, whether intentionally or not, extends to mere agents such as lawyers or bankers, the penalties incurred by their employers: probably it has been altered in the law as passed.

‖ This appears to be removal from his own village, but without other penalty save obligatory residence in a particular place and police surveillance.

BOOKS OF COMMERCE. *

Commercial Code of Italy.

CHAPTER IV.

21. Every business person (commerciante †) must keep a day-book which shall show, day by day, all items on the credit and debit sides, all acts of trade (business transactions), the negotiation, acceptance or exchange of bills, and, generally, every receipt and payment under any head whether civil or commercial, together with, month by month, a statement of the sums laid out on the expenses of his household (casa). This day-book shall be kept, independent of any other books which may be required in the person's business.

Every business person must also keep files of all letters and telegrams received, and copy-books for all letters and telegrams despatched.

22. Every business person must make annually an inventory of his movable and immovable property and of debts owed by and to him of whatsoever nature or origin.

The inventory must be closed by a balance sheet and statement of profit and loss, and must be entered and signed, year by year, by the party in a book opened for the purpose.

23. The day-book and inventory book shall not be brought into use until each leaf thereof shall have been numbered and countersigned by a judge of the commercial court,‡ or by the prætor (petty magistrate and judge) of the place of residence of the party: on the last page of the abovementioned books and of the letter copy-book shall be entered the number of pages comprised therein, and the judge or prætor shall append to such entry his signature with the date. No charge shall be made for any of the above duties.

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* In connection with the trade of money-lending in India, it has been recommended in Vol. I, pp. 322–23 that persons dealing habitually in money and credit should be compelled to keep proper and easily verified accounts in order not merely to facilitate courts and others in ascertaining the history of a debt or bond, but to ensure that the creditor shall annually or periodically furnish the debtor, whether on demand or otherwise, with a complete statement of account, fairly free from suspicion of error or fraud. The codes of commerce of the various countries of continental Europe invariably contain provisions that *all* 'business persons' (commerçants) shall keep certain books and files which are subject to the *visé* of various authorities such as the judge of the commercial court, the mayor, &c., and it can hardly be considered objectionable to prescribe for Indian money-lenders conditions—with all necessary modifications—which are universal for all classes of trade on the European continent. Extracts are therefore given from the commercial codes of several European countries. *See* also Article IV of the German usury law in this chapter with the note thereon.

The Government of Madras has already adopted the suggestion, in their letters to the Government of India, No. 2671, Judicial, dated 6th November 1894, Judicial, and No. 2081, dated 8th October 1895.

† The 'commerciante' may be an individual or a society: section 8 defines a 'commerciante' as follows:—

"Commercianti are those who carry on trade (esercitano atti di commercio) as a regular business, and trading societies (companies, &c.)."

'Acts of commerce' are further defined in section 3 under 24 heads of which the following may be mentioned as relevant to the subject of this study:—

"(1) The purchase for resale of produce and goods, whether raw or manufactured, &c.;

"(2) The sale of such goods when they have been bought for resale;

"(11) Banking operations;

"(12) The exchange and other disposal of produce;

"(24) The deposit of goods in public (generali) warehouses and all transactions based on such deposit and on bills "or warrants relating thereto."

By section 5 it is provided that the purchase of produce and goods for domestic consumption or use, or the resale of the same, is not an 'act of trade,' nor is the sale by a land-owner or cultivator of the produce of his land. Hence persons engaging in such operations do not thereby become traders, and therefore, under section 1, are not subject to commercial law, but only to the ordinary law; all 'acts of trade' are under the commercial law.

These are the provisions of the Italian code, and those of other countries, especially Latin, are similar.

‡ The commercial courts, as separate courts, have now been abolished in Italy, their work being done by the ordinary courts but under the provisions of the commercial code. It was intended to give a complete account of the commercial courts, but time and space prevent, while the matter is not absolutely relevant. Suffice it to say that, taking France as an instance, there are commercial courts in every town of importance, that the members of each Tribunal consist of a President with several Judges and Deputy Judges; these are not legally trained officers, but are business men of standing, probity, and good sense; they are elected at a meeting consisting of merchants also selected for their probity, sense of order, and capacity the number of such electors shall not exceed one-tenth of the number of licensed (patentés) traders, nor be less than fifty; the list of electors is drawn up by a commission consisting of the President and a Judge of the Tribunal, of the President and a member of the Chamber of Commerce, or of a Municipal Councillor of three members of the Council of the District, of the President of the Conciliation Council (Conseil des Prud'hommes) or of a Justice of the Peace if there is no such council in the town, and of the Mayor of the town. The following are ineligible as electors: persons convicted of crimes, such as theft, cheating, usury, indecent assault, &c., or persons who have suffered any degrading punishment; persons convicted of infringing the gambling or lottery laws, certain other criminals, dismissed public officials, bankrupts who have not been rehabilitated, and, generally, all who have not the right of public voting: various precautions are taken for the publication of this list, and for the lodging of objections.

Persons eligible for election as judges are traders of thirty years of age, domiciled within the jurisdiction of the court, persons who have been directors of a company for five years, masters of sea-going vessels under certain conditions; men cannot become judges till they have first been deputy judges, nor President till they have been judges. The election of judges and deputy judges shall be by ballot, and of the President by a special ballot, in presence of the existing commercial court presided over by the Mayor.

Judgments in the commercial court are delivered by at least three judges; advocates (avoués are not allowed to practise in these courts, but other persons may be personally instructed by a party if present. The functions of the judges are *wholly gratuitous*.

The commercial courts have jurisdiction over all disputes relating to contracts and transactions between merchants, shopkeepers, and bankers, arising in the course of their business; over disputes between partners in matters arising out of a business partnership, and over disputes relating to business (trade) transactions between all persons; trade transactions however are limited as in the second note in this article (on the word 'commerciante' in Italy). The courts have also other functions as may be read at large in the French and other codes; it is noticeable that disputes about bills of exchange are not cognizable by the commercial courts unless at least one of the parties is a commerçant.

The procedure of the commercial courts isthat provided in Title XXV of Book II of Part I of the Procedure Code, and is that known as 'summary'; judgment is final when the parties both declare their desire that the judgment shall be final and without appeal, when the matter at issue does not involve any claim in which the principal exceeds

The day-book must be presented once in every year before the commercial court or prætor, and shall be viséed by him without charge immediately below the latest entry therein.

In communes where there is no prætor the *visa* may be obtained from a notary who shall enter the transaction in his register.

24. The commercial courts shall maintain a register in which shall be entered the names of the parties who have presented their books, the nature of the same, and the number of leaves countersigned; this register shall be entered up at the annual *visa* of the day-books.

Prætors who have countersigned and *viséed* the above books must send an annual memorandum of the fact to the commercial court.

The same duty is owed by notaries when they have acted as in section 23.

25. The abovementioned books must be kept in order of date and sequence, without blank spaces, interlineations, or marginal alterations. No erasures are allowable, and where any correction may be necessary, it must be made in such way that the words struck out shall be completely legible.

26. Business persons must preserve for ten years from the date of the latest entry in the (court) registers, the books obligatorily kept, and the letters and telegrams received.

27. The communication of the contents of the above books, inventories and files, shall not be claimable by parties in court except in cases of succession, formation or dissolution of partnership, and bankruptcy.

Inspection in such cases shall take place in the manner agreed upon by the parties; failing such agreement by deposit in the office of the court.*

28. During the progress of any dispute (controversia) even though not of the nature mentioned in section 27, the judge may, whether of his own motion or on the petition of one of the parties, order the production of the books, but solely for the grant of an extract of so much as shall be relevant to the matter at issue.

The production of particular letters or telegrams which may be relevant may also be ordered.†

REPORTS FROM HER MAJESTY'S MINISTER AT WASHINGTON ON THE HOMESTEAD AND EXEMPTION LAWS IN THE UNITED STATES.‡

No. 1. (Omitted.) §

Inclosure in No. 1.

Report.

Previous to the year 1862 the only means of acquiring tracts of public land was under the provisions of the Pre-emption, Timber Culture, and Desert Land Acts passed by Congress in 1841; but in 1862 the Homestead Law was passed, with the object in view of encouraging the settlement, possession, and cultivation of the land, in small quantities, by a class of industrious citizens, who, by their occupation of the soil and establishment of homes, would tend to form communities adverse to lawlessness and social or civil disorder, and to the exclusion of individual land speculators and Land Companies. It is also held that the possession of proprietary rights in the land tends to promote industry and thrift, and to foster a feeling of independence and love of country. With this view provisions were introduced into the Act protecting the settler and his family from the loss of their homestead and a certain amount of personalty by execution or sale, in the event of the settler being overtaken by debt, whether through illness, bad seasons, or other misfortunes. Unfortunately, the beneficent object held in view by this legislation has been partially defeated, the provisions of the Act having been converted

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£60; this principal does not exclude counterclaims even though these, aggregated with the original claim, do exceed £60. Appeals lie in other cases to the usual court of appeal for the district, but the appellate courts cannot stay execution of the original judgment, though they may allot a special hearing. All appeals shall be treated as appeals from 'summary' judgments.

Where there are no commercial courts, the ordinary civil judges shall exercise the functions of commercial courts, and shall decide similar matters with similar procedure.

The above is entered to show the use made of honorary (unpaid) judges chosen from experts not in the law but in trade; they must immensely relieve the ordinary courts, and would be very valuable in disputes between rural banks and their customers, if the Village Moonsiff's courts should not be equal to the task. But the Village Moonsiff's court with slight developments, appears to be admirably adapted for village business disputes.

By the Belgian law the initial or countersignature of the judge, &c., may be replaced by the official seal of the court or commune.

* Section 28 extends this section so that parties in suits for debt or for an account shall have the benefit of the production of the books in so far as the parties are concerned.

† The Belgian law is so similar to that of Italy that it needs no translation. But section 20 of that law provides that the books shall be admissible in evidence in suits between business persons as regards trade matters. So also section 20 of the French Code of Commerce is as follows, viz.: "Business books, if regularly kept, may be allowed by the judge as evidence between traders (commerçants) in matters which concern trade"; this evidently refers to the particular books, specifically ordered, as in the text *supra*, to be kept. Section 17 of the French Code is as follows: "If the party whose books are offered in proof of any fact refuse to produce them, the judge may accept the oath of the opposing party."

‡ See Vol. I, pp. 46, 323-24. The report from the Minister has been reprinted in full together with the Consular report of the (British consular) district of Mississippi, and the Homestead exemption law of Louisiana, one of the States of that district.

It should here be stated, what was unknown to the writer when volume I was written, that several countries of Europe are now studying, and some economists are urging the importance of introducing Homestead exemption laws either under that particular name or under some local name. The limitation of the power of proprietors, especially small ones, to divide or to encumber their property, and of creditors to touch it or a registered portion thereof, is beginning to receive European consideration, and the question will be hereafter dealt with separately.

§ Merely the covering letter.

by speculators into a means of acquiring possession of large tracts of land by making fraudulent entries at the various Land Offices throughout the States, and also a method of dishonest evasion of debts lawfully contracted. During the debate in the Senate last Session on the repeal of the Pre-emption, Timber Culture, and Desert Land Laws, it was stated that the Land Commissioner had made the admission that 40 per cent. of the entries under the Homestead Law were of a fraudulent nature.

A settler desirous of availing himself of the benefits of the Homestead Law is required to be the head of a family, and to be 21 years old, and under these conditions he is entitled to enter at the District Land Office a quarter section consisting of 160 acres of public land, which he is expected to occupy as a residence within six months after filing his entry. The fees of the Land Office, which are of small amount, are the only payments required of the homesteader in return for his privileges. After five years of continued residence and cultivation of the soil, the homesteader, on making application to the Land Office, is entitled to a patent for his quarter section six months after proving to the satisfaction of the Registrar that he has complied with the necessary conditions. If the settler, having filed his homestead entry, fails to occupy and cultivate the soil, his rights are forfeited to the State, as is also the case where an attempt at fraud or a want of good faith can be proven. In the event of the death of the settler before the issue of the patent, his widow succeeds to the homestead right, and in the case of the death of both father and mother, the children are entitled to the homestead right, and in no case can this right be devised away from the widow or minor children.

The homesteader is also permitted, should he wish to do so, to commute to cash his homestead entry, after six months' occupation and cultivation of the land, at 2 dol. 50 c. or 1 dol. 50 c. per acre, the price varying according to the nature and quality of the soil and the improvements made.

In almost all the States of the Union the homestead, up to a fixed limit of value, is under certain restrictions exempted by State legislation from levy by execution, but this exemption can only be claimed so long as the settler occupies the land and makes it his home. Should he cease to do so, the land could be sold to satisfy his creditors. A very liberal allowance of the personal property of the homesteader is also exempted from execution or sale, the articles exempted varying in the different States according to what is considered by the local Legislatures as necessary to enable the debtor to continue his residence on the land, to pursue his vocation, and to provide for the maintenance and welfare of his family.

The following is a summary of the legislation in the various States of the Union relating to the exemption of homesteads and of the personal property of the settler :—

Alabama.

In the country, a homestead of 160 acres not exceeding 2,000 dollars in value, and in cities, towns, and villages, a lot with dwelling, &c., value not to exceed 2,000 dollars, is exempted. Personal property consisting of necessary wearing apparel for each member of the family, portraits, books, and wages for labourers not exceeding 25 dollars per month is also exempt. Similar exemptions are provided for the widow in support of the family for the space of twelve months.

Arkansas.

A homestead of 160 acres of land, and the buildings thereon, up to the value of 2,500 dollars, are exempt; and in a city, town, or village, 1 acre with improvements up to the same value. Personal property to be selected by the debtor is exempt to the value of 200 dollars, also his or her wearing apparel. If the debtor be married, 500 dollars is similarly exempted, with the wearing apparel of the family.

California.

A homestead with buildings thereon, not exceeding 5,000 dollars in value, is exempt; and of personal property, a certain number of horses and stock, farm implements, tools, household and kitchen furniture, wearing apparel, one month's provisions, a sewing-machine, lawyers' and ministers' libraries, and in fact almost everything needed for personal comfort and safety.

Colorado.

Homestead not exceeding 2,000 dollars in value is exempted; and nearly the same generous provision for personal property as in California exists in Colorado. In the case of a single person, his tools, implements, and stock of trade to the value of 300 dollars are exempt.

Connecticut.

Homestead and buildings to the extent of 1,000 dollars in value. Personal property consisting of wearing apparel, household furniture, tools, implements of trade, library not exceeding 500 dollars in value, a certain amount of stock and poultry, provisions, and other items amounting in all to about 1,000 dollars.

Dakota.

Homestead, otherwise acquired than under Homestead Act, not to exceed 80 acres in the country or 1 acre in a town. Personal property, comprising pictures, books, instruments and tools, wearing apparel for debtor and family, furniture in use to the extent of 500 dollars, certain live stock, waggons, farming utensils, &c., valued in all at 1,000 dollars.

Delaware.

No homestead is exempt; but personal property, consisting of wearing apparel, books, pictures, and other household goods, tools, implements of trade, &c., not exceeding 200 dollars in value, is exempted.

Florida.

Homestead to the extent of 160 acres, and a residence with half an acre of land, if in a village of city with 1,000 dollars' worth of personal property.

Georgia.

Homestead not to exceed 1,600 dollars in value is exempt, together with personal property of the heads of families to the value of 600 dollars.

Idaho.

No homestead is exempt. Household and farming utensils, with food, seed, tools and instruments, tents and mining equipment, &c., are exempt, the whole not to exceed 100 or 200 dollars of each exempt class of goods.

Illinois.

Homestead not to exceed 1,000 dollars in value, except where the right of exemption has been specially waived. Personal property, consisting of wearing apparel, books, pictures of all the family, and 300 dollars' worth of other articles at option of debtor, is exempt.

Indiana.

No homestead is exempt. Personal property is exempted to the value of 600 dollars as the debtor may select. No property can be sold at less than two-thirds of its value. This can be waived in notes and contracts by the clause, "Payable without relief from Valuation or Appraisement Laws."

Iowa.

Homestead not exceeding 40 acres, and half an acre if in a town, with buildings and improvements, without limitation of value, except in cases where it is specially stipulated that exemption of the homestead is waived. Personal property, consisting of such domestic and agricultural tools and utensils as are needed for the maintenance of a family, with certain cattle, &c., are exempt.

Kansas.

Homestead consisting of 160 acres, or 1 acre in a town or city, with all improvements. Personal property, consisting of household furniture, food and clothing for a year, tools and implements and three months' wages, farmer's utensils, seed, grain, stock to a limited number, and taxation of personal property to the extent of 200 dollars, is exempt.

Kentucky.

A homestead not to exceed 1,000 dollars is exempt, together with a limited amount of live stock, and domestic implements not to exeed 100 dollars in value; and libraries, tools, instruments, &c., not to exceed in value 200 dollars, are exempt.

Louisiana.

Homesteads consisting of lands, buildings, &c., whether rural or urban, to the value of 2,000 dollars, are exempt, together with bed and bedding, arms, furniture, tools, implements for pursuit of trade, &c., to a sufficient degree to enable the debtor to support his family.

Maine.

A homestead with buildings, &c., to the value of 500 dollars is exempt; also wearing apparel and furniture up to the value of 50 dollars; bedding, family portraits, books, food, tools, cattle, grain, and implements of trade, the whole not to exceed 600 dollars in value.

Mary Land.

This State has no Homestead Law, but certain personal property designated by law is exempt, such as all wearing apparel, books and tools not kept for sale to the sum of 500 dollars. Wages or salary to the amount of 100 dollars are also exempt.

Massachusetts.

Homesteads with the improvements thereon are exempt to the value of 800 dollars. This exemption continues after the debtor's death for the benefit of the widow and children, until the youngest child becomes 21, or the widow dies. An exempt homestead cannot be sold unless more than 800 dollars is bid for it. The 800 dollars are returned to the debtor if sale be made at a higher figure for taxes or other contingencies provided by law. The following personal property is also exempted: all necessary wearing apparel, bedding, stoves, 20 dollars' worth of fuel, books to the value of 50 dollars, certain cattle, tools, implements of trade, and provisions for family use to the value of 50 dollars.

Michigan.

Homesteads not exceeding 40 acres in the country, or a house and lot in a city, town, or village, the value in either case not to exceed 1,500 dollars, are exempt. Also personalty, including furniture to the value of 250 dollars, implements and stock-in-trade to the value of 250 dollars, books not exceeding 150 dollars, pictures, provisions and fuel for subsistence for one month.

Minnesota.

Homesteads to the extent of 80 acres are exempt from seizure, together with a certain amount of cattle, 500 dollars worth of household goods, one year's provisions and fuel, also waggon and farm implements to the value of 300 dollars.

Mississippi.

Homesteads to the extent of 80 acres with improvements to the total value of 2,000 dollars, and in cities, towns, and villages, the land and buildings occupied by the debtor, with personal property to be selected by him to the value of 250 dollars, are exempt. The homestead exemption to the value of 2,000 dollars was made solely for the benefit of the family of the debtor.

Missouri.

Rural hemesteads consisting of 160 acres of land to the value of 1,500 dollars are exempt, as are also 18 square rods of ground to the value of 3,000 dollars in cities of over 50,000 inhabitants and 30 square rods of ground to the value of 1,500 dollars in towns of less than 50,000 inhabitants. Wearing apparel, tools, furniture, stock-in-trade, books, &c., are also exempt. The property of husband and wife are both exempt from liabilities incurred by the other before marriage.

Montana.

Exemption covers a homestead not exceeding 2,500 dollars in value, together with considerable personal property.

Nebraska.

The exemption extends to 40 acres of land, with necessary household goods to the value of 100 dollars to be selected by the debtor; also certain cattle and implements for farming; also tools of mechanics, books, &c. Heads of families who have no exempt real estate have 500 dollars' worth of personalty exempt.

Nevada.

Homesteads and their appurtenances to the value of 5,000 dollars are exempt. So, also, necessary household furniture, wearing apparel, firewood for one month, certain cattle, tools, &c., to the extent of about 1,500 dollars.

New Hampshire.

Homesteads not exceeding 500 dollars are exempt, together with wearing apparel, furniture, provisions, tools, books and a certain amount of live stock not exceeding a total value of 500 dollars. No homestead can be sold in execution unless 500 dollars be bid.

New Jersey.

The lot with the buildings thereon occupied as a residence to the value of 1,000 dollars, are exempt, together with 200 dollars' worth of "goods and chattels," and all wearing apparel for the debtor and his family.

New Mexico.

A homestead not exceeding 200 acres or 1,000 dollars in value, clothing, bedding, and books in use by the family, provisions to the extent of 25 dollars, other furniture to the value of 10 dollars, and tools and implements to the value of 20 dollars, are exempt.

New York.

Homesteads to the extent of 1,000 dollars in value, and various articles of domestic use, in all about 500 dollars in value, are exempt. No release of such exemption is valid unless in writing and signed by the householder. Married women are entitled to the same exemptions of homestead and personalty.

North Carolina.

A homestead not exceeding 1,500 dollars in value, to be determined for the debtor by three disinterested appraisers appointed by the Sheriff, is exempt from execution; also household goods to the value of 500 dollars.

Ohio.

A homestead not exceeding 1,000 dollars in value is exempt, together with clothing, bedding, fuel for sixty days, books, food, a certain amount of live stock, mechanical or agricultural implements not exceeding 100 dollars in value, and other necessary family articles. If the debtor is not a house-owner he may hold as exempt 500 dollars of personal property in addition to the chattles exempted above.

Oregon.

A generous allowance of personal effects, reaching possibly 1,000 dollars in value, is exempt. A debtor's family, if he die, is maintained from the estate by order of the Court, in preference to any other claim, except for funeral expenses.

Pennsylvania.

There is no Homestead Exemption Law in this State, but real or personal property to the value of 300 dollars, in addition to wearing apparel, Bibles, school-books, and a sewing-machine, are exempt. The debtor may retain such property as he pleases to the amount exempted, but he must make his claim before sale or his claim is void. He may formally waive all exemption if he please.

Rhode Island.

No homestead is exempt; but personalty consisting of the wearing apparel and tools of the debtor to the extent of 200 dollars is exempt, together with his furniture, books, stores, other household articles, and one cow, a hog, and a pig.

South Carolina.

The law of exemption of real and personal estate is the same in this State as in North Carolina.

Tennessee.

A homestead to the value of 2,200 dollars is exempt, but the exemption must be claimed in due form at the Registrar's office. In case of the death of the debtor, this exemption holds for the widow and children. Personalty to the value of 1,200 dollars is also exempted.

Texas.

Homesteads of 200 acres in extent, or lots in a town to the value of 5,000 dollars, are exempt, together with all household furniture, tools, and a liberal supply of useful articles. In case the debtor dies, the Court appropriates an equivalent in money from the estate, in lieu of exempted articles if they do not appear, or are not desired.

Utah.

A homestead valued at 1,000 dollars, 200 dollars in cash for each member of the debtor's family, and a liberal allowance of household or farming utensils, are exempt.

Vermont.

A homestead not exceeding 500 dollars in value is exempt from seizure for debt, and in the case of the debtor's death passes to the widow and children. A generous amount of personal property is also exempt, such as apparel, bedding, and furniture "necessary or upholding life," together with a certain number of cattle and provisions, fire-wood, books, &c.

Virginia.

Property to the value of 2,000 dollars is exempted in this State, which may, however, be waived in writing. Wearing apparel, bedding, furniture, household utensils not exceeding 100 dollars in value, and a certain quantity of live stock, are also exempt.

West Virginia.

Homesteads, declared in due form as such, not exceeding 1,000 dollars, are exempt, together with certain live stock, agricultural and domestic implements, furniture, provisions, books, &c. Unmarried men are entitled to exemption of tools of trade to the value of 50 dollars.

Washington Territory.

Family homestead not to exceed 1,000 dollars in value; all clothing, kitchen-ware to the extent of 150 dollars, tools, certain stock, &c., are exempt, except for the price of their purchase, taxes, or mortgage.

Wisconsin.

The Exemption Law covers a homestead not exceeding 40 acres in extent in the country, or a house and lot in town or village to the extent of 1¼ acres; also personalty consisting of a limited amount of live stock, one year's provisions, fuel, seeds, &c., also a waggon and farm implements to the value of 300 dollars.

Wyoming.

The homestead is exempted to the value of 1,500 dollars, also 500 dollars' worth of household goods, 150 dollars' worth of wearing apparel for each person, with tools and stock-in-trade to the value of 300 dollars. No property of a person about to leave the Territory is exempt.

The following restrictions prevail in the exercise of the Homestead and Exemption Laws in the various States:—

The homestead exemption does not, by the Constitutions of the States of Michigan, Virginia, Nevada, and Alabama, avail against—

(1) Any mortgage or pledge thereon lawfully obtained; or in the States of Kansas, Arkansas, and Nevada as against any lien.

(2) Nor in the States of Kansas, Virginia, West Virginia, North Carolina, Tennessee, Arkansas, Texas, Nevada, South Carolina, Georgia, Florida, and Louisiana against any obligation or debt contracted for the purchase of the premises (or property), or (except in Virginia, North Carolina, and Arkansas) for improvements thereon.

(3) Nor in the States of Kansas, West Virginia, Virginia, North Carolina, Tennessee, Arkansas, Texas, Nevada, South Carolina, Georgia, Florida, and Louisiana against a sale for taxes.

(4) Nor in Virginia, Florida, and Louisiana, against a claim for services thereon by a labouring person or mechanic. So also in North Carolina, Arkansas, Georgia, and Alabama not against labourers' or mechanics' liens.

(5) Nor in Virginia, Arkansas and Louisiana against a debt incurred by a public officer, fiduciary, or attorney-at-law, or in Arkansas, by a trustee of an express trust.

(6) Nor in Virginia against a claim for rent, nor against a claim for the legal fees of an officer.

(7) Nor in Georgia against a debt contracted for the removal of incumbrances thereon.

By the Constitutions of the States of Michigan, Kansas, North Carolina, Tennessee, Texas, Nevada, Alabama, and Florida a homestead cannot be alienated or mortgaged without the joint consent of husband and wife, and instruments of waiver of homestead rights, besides being so signed, must in Alabama be attested by one witness. By the Laws of Texas and Louisiana no mortgage, trust deed, or other lien on the homestead is ever valid, except for the purchase-money therefor or improvements thereon, whether such mortgage, trust deed, or lien is created by the husband alone, or together with his wife, and all pretended sales of the homestead, involving any condition of defeasance, are void. In Louisiana no waiver of homestead rights is valid.

In Georgia all homestead rights may be waived by the debtor in writing, except 300 dollars' worth of household furniture, provisions, and wearing apparel.

In Texas no temporary renting shall change the character of a homestead, no other homestead having been acquired.

By the Constitutions of the States of Michigan, North Carolina, Tennessee, Arkansas, West Virginia, Alabama, and Louisiana the homestead estate continues exempt from the owner's debt after his death during the minority of any of his children. So it would seem to be implied in Texas, where the Constitution provides, "that on the death of the husband, wife, or both, the homestead descends and vests like other real property of the deceased, and shall be governed by the same laws of descent and distribution, but shall not be partitioned among the heirs of the deceased during the lifetime of the husband or widow, or so long as he or she occupy or use the same as a homestead, or the guardians of minor children be permitted so to do by order of Court."

In the States of Michigan and North Carolina the homestead estate continues exempt during the life and widowhood of the widow, unless she be the owner of a homestead in her own right. So also in Tennessee, Alabama, and Louisiana it is provided, in general terms, that it shall inure to the benefit of the widow.

In Florida the homestead exemption 'accrues to the heirs' of the party enjoying it.

It is hard to state definitely to what extent the provisions of the Homestead and Exemption Laws are taken advantage of, since this varies to a great degree in the different States. In some districts they are rarely resorted to, except in cases of sickness, when the debtor secures protection from ejectment and sale of his homestead and property, while in other districts they are very generally made use of.

In the Eastern States the Homestead and Exemption Laws are still in their infancy, and so far have not attracted the attention of officials engaged in drawing up statistics, and it is impossible to procure reliable data showing to what extent the registration of homesteads is practised in these States. The existence of such beneficient Laws is very little known to the ignorant classes, and this cause, coupled with the fact of the smallness of the value of personalty exempted, affords the most plausible reason for the small number of registrations effected. The exemption of personal property is effective, since no process of law is required to render it valid, while in many cases homestead exemption is not taken advantage of, since a declaration has to be recorded, and there are many improvident people who, relying upon their possessory rights, and on having complied with the law in every respect, fail to make the necessary declaration intended to afford them lawful protection in the hour of need. Cases, however, constantly occur where the debtor avails himself of all the privileges provided by legislation against judgment made on his property for debt, and sometimes also with the intent to cheat and defraud legitimate creditors.

In the Western States these Laws are in much more general use, and the accompanying tables, compiled from the Land Commissioner's Reports for the years 1883, 1884 and 1885 show the extent to which registration is practised at the different Land Offices scattered throughout the West. In many cases, homestead entries which have been filed are never completed, the homestead being prematurely relinquished by the settler, who has grown weary of struggling to make money out of farming without capital, and has not complied with the conditions needful for final proof, or who has forfeited his rights by failing to act in good faith. In cases of distress, advantage is invariably taken of every privilege granted to the debtor by law.

Whether these laws are beneficial or otherwise to the community at large can only be answered by considering the question from different points of view, but it is to moralists that it must be left to decide whether it is beneficial to the community to protect a debtor from the payment of his lawful debts to the detriment of the creditor, and whether it is well to encourage people to live from hand to mouth in a position which they cannot improve.

There can be no doubt that to the artizan and labouring classes the benefits accruing from such legislation are very great, and the general consensus of opinion is in favour of these Laws, as is proved by the fact that the tendency shows itself to be in the direction of extending rather than curtailing the exemptions offered, and any attempt to diminish or repeal by legislation the privileges granted would be indignantly resisted on all sides. People of small means find these laws a great blessing to them, since in the case of sickness or other misfortunes they enjoy the feeling of security that their home is assured to them, and that they will not be reduced in the moment of failure to a state of abject

poverty. The weak are protected against the strong, and against unscrupulous merchants and usurers who wish to take advantage of the ignorance and poverty of the settlers to wring from them their uttermost farthing. They also afford protection to the wife and family against the folly of the husband, since a homestead cannot be sold, mortgaged, or abandoned by the husband without the consent of the wife. There are, undoubtedly, thousands of families in the States which have been saved from complete ruin by these humane provisions.

Certain drawbacks connected with the system are, however, apparent, as it is more difficult for a homesteader to raise money on credit than for one who has waived his rights to the advantages offered by these laws, and there are many who abstain from filing their entries, not wishing to impair their credit for the rainy day. Also, in leasing property in a State where the Homestead and Exemption Laws prevail, a landlord runs an extra risk, and, consequently, charges a higher rent than he otherwise would ask if the exemptions were waived.

On the other hand, these laws are considered by merchants and capitalists as an injustice to business men, and a mistaken kindness to the poor man as wrecking his credit and preventing him doing business on a cash basis.

Washington, October 28, 1886. (Signed) CHARLES HARDINGE.

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*Mississippi.**

In the country, 80 acres with improvements to the total value of 2,000 dollars.

In cities, towns, and villages, the land and buildings occupied by the debtor, and personal property to be selected by him to the value of 250 dollars.

In Alabama, Arkansas, Florida, Missouri, and Mississippi, the mere possession (no matter how acquired) of what we call the fee simple of a house and lands, by one who has a family or some one dependent upon him for support constitutes such property a homestead; and all the immunities and exemptions provided by law attach to it without any special act on his part to acquire them.

In Louisiana those who intend to claim the benefits of the Homestead Law must register their property as homestead, in the office of the Recorder of Mortgages of their parish.

In this State, therefore, it is optional with the proprietor whether his property shall or shall not be homestead; and consequently it would seem that it is in this State that an answer may be found to some of the questions bearing upon the value of Homestead Laws to the individual and to the community.

The law as above stated is embodied in the Constitution of 1882, and was probably devised out of the experience with regard to exemptions provided by an Act of the Legislature of 1874, which exempted from seizure under any legal process almost every article of furniture, useful or ornamental, likely to be found in an average household, and 600 dollars besides.

This law was passed in the (supposed) interests of poor people and small traders, but its effect was to put a stop to their credit, and paralyze their business. The wholesale houses would not provide stock except for cash in hand, and the landlords required rent to be paid in advance.

In 1876 the Modified Exemption Act now in force was passed, and I presume that the framers of the Constitution of 1882, perceiving that large exemptions did not confer unmixed benefits, made the homestead privileges optional.

As a rule, he does not register his property as a homestead. It may be that he is content with the exemptions generally enjoyed, and the widow's allowance of 1,000 dollars. It may be that, if a farmer, he does not wish to encumber his credit for the rainy day that is sure to come, sooner or later, in his precarious calling. Take this case: Farmer A has registered his property as a homestead, Farmer B has not done so. There comes a bad year, flood, drought, army worm, mildew, any one of a score of accidents, and they both have to borrow money to put next season's seed in the ground. Farmer B can raise what he wants on first mortgage at 8 per cent. Farmer A must go to the factor, and consider himself lucky if he gets what he wants at 40 per cent.

In the parish † of Orleans (in which the city of New Orleans is situated) not 3 per cent. of proprietors qualified to register homesteads actually do so. In the large and well-cultivated parish of Plaquemines the registrations are under 4 per cent., in West Feliciana 1 per cent., in Iberville 1 per cent., and so on. The highest return I have received is from St. Landry, where almost one-third register.

I have presumed that this disinclination to accept homestead exemptions is based upon the effect they might have upon credit, and this may be the reason on the prospective debtor's side; but I find, upon inquiry of large houses which do business with farmers and store-keepers in the parishes, that when a man wants goods on credit the question, "Has he registered his property as a homestead?" is not specially asked. His general character and his surroundings are taken into consideration and determine the point. Indeed, one informant (in the hardware line) told me he would rather trust one who had become a homesteader, as he had thereby shown thrift and caution. But, as a general rule, I found that in case of preference between man and man, or where the *pros* and the *cons* were balanced, the non-homesteader would have the advantage, and the homesteader would be refused.

I am indebted to Mr. Daniel Dennett, an eminent authority on farming and agriculture in the South, for the following letter on this subject:—

"*Brookhaven, Mississippi, September* 3, 1886.

"Dear Sir,

"In reply to your note of the 31st ultimo, it is difficult to say precisely to what extent the Homestead Laws benefit the people of this or any other State.

"The merchants, I believe, generally think these laws an injustice to business men, and claim that they are little or no benefit to the farmer or poor man.

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* This means the consular district of Mississippi which includes several great States, as mentioned in the text, including Louisiana of which the actual law follows.

† For Louisiana the divisions elsewhere known as 'counties' are called 'parishes.'

"I think nearly everybody avails himself of the benefits of this law when his necessities and his interests require it. I think the law is strongly approved by those for whose benefit it was made.

"The friends of the law contend that merchants and business men generally should not credit poor men with an eye to homestead exempted property, and that all credits should be based on personal integrity and ability to pay without bringing in exempted property. I think, however, that merchants often risk debts on account of property covered by Exemption Laws.

"I think the people protected by Homestead Laws, and the State also, are benefited by these laws, from facts which follow:—

" 'Mississippi has a large number of business men, merchants, many of them exceedingly sharp and unscrupulous, and a certain proportion of them honest and upright in their dealings. Many of them came here strangers to make all the money that could possibly be made out of the farmers and the people.

" 'The farmers of this State are most of them poor and ignorant; merchants often take great advantage of their poverty and ignorance. Cash prices for goods are usually pretty high, but credit prices are usually not less than 40 per cent. above cash prices, often 75 and 100 per cent., and even more. For instance, they often charge 10 dollars a barrel for flour sold in August and September, payable in cotton in November, which is better than cash in hand, since they make a handsome profit on the cotton. This flour could be sold at a profit, for cash, at 6 dollars a barrel—4 dollars for the use of 6 dollars three months would be 12 dollars for the use of 6 dollars one year, and the same credit prices are often charged for bacon, dry goods, &c.

" 'Some well-informed statisticians in this State think that the merchants own more than half of the farms of Mississippi. I know of a Jew merchant at Summit, Mississippi, who some years ago owned about 100 farms.

" 'Mississippi in the year 1860 had 42,840 farms; in 1880 the State had 101,772 farms, with areas of from 3 to over 1,000 acres each. The area of 14,356 of these farms is from 3 to 20 acres; the area of 87,416 from 20 to over 1,000 acres each.

" 'The average size of farms in 1860 was 370 acres; in 1880 they averaged 156 acres.

" 'Merchants have divided farms which they have absorbed since the war, and sold to negroes and poor white farmers, retaining mortgages; but few of these farms will ever be paid for—

	Number.	Per cent.
"Farms in Mississippi cultivated by owners in 1880, most of them mortgaged		57,214
Rented for fixed money rental	17,440	
Rented for share of products	27,118	
		44,558
Total ..		101,772

" 'As to borrowing money in Mississippi, few farmers are ever able to obtain loans of money. Those who are fortunate enough to have money to loan get from 15 to 25 per cent. per annum for it on good security.

" 'The banks of New Orleans are hermetically sealed against planters and farmers. The planters usually get money on hard terms from city merchants as advances on cotton, sugar, rice, or other products, and the farmer sometimes gets a little from the country merchants as an advance on his little crop, and the country merchant ships cotton to the city merchant and obtains money from him. This is the chain that extends from the banks to the city merchant, and from him to the planter, the country merchant, and the farmer.

" 'The illiteracy of Mississippians, and the advantage which sharp educated business men have over them, furnishes another excuse for Exemption Laws to protect the weak against the strong.

" 'The population of Mississippi in 1880 was—

White	470,403
Coloured	652,199
	1,122,602

	Number.	Per cent.
White, 10 years old and upwards, unable to write ..	53,448	= 16·2
Coloured, 10 years old and upwards, unable to write ..	319,753	= 75·2

" 'The future welfare of Mississippi and the South will rest on her small farms and mixed farming, not on plantations and great staple crops. The best protection possible should be given to small farmers by the laws against those who have the ability to swallow them, and reduce them to peonage. Great numbers of them are in reality peons now, though called free and independent men and sovereigns.'

"Pardon me for not answering your letter systematically as you put your questions. Perhaps I have said much more than you desired me to say. You of course will select the marrow if it has any and throw the rest away.

"Very, &c.,

"(Signed) DANIEL DENNET.

"Hon. A. de Fonblanque."

Mr. Dennett's facts and figures may be taken as correct, but his deductions may perhaps be open to discussion. The picture he draws of farms passed into the possession of creditors, of a number of small farmers against whom the banks are "hermetically sealed," and who are subject to such hard bargains as he describes, gives the idea that capital or—what comes almost to the same thing—credit is the missing factor for obtaining prosperity, and leads one to suppose that its limitation by Homestead Law does not improve the position of the individual. Then the question, "Is it well for the State to

encourage a number of persons to live from hand to mouth in a position which they cannot improve?" arises and cannot be discussed in this country. The sentimental side is so strong for defence, and provides such potent weapons for attack, that no one who has the faintest hope of ever obtaining an office would dare to assail it openly. There would be political danger even in discussing it in the press or on a platform from the unpopular point of view. The only way, therefore, to find out what people really think and want on the question is to make it the subject of friendly conversation with individuals. Tied by my duties to the city of New Orleans, I am unable to gather information in this way respecting the other five States of this large district.

From what I can glean in the local circles from Judges, lawyers, notaries, merchants, factors, and others practically conversant with the subject, and taking into consideration the habits and generous character of the Southern people (even including the much-abused merchant), I find no reason why the ordinary laws of political economy should not prevail. Indeed, if I read the lesson taught in Louisiana aright, it has been proved better for all that it should.

With regard to general exemptions, it will be observed from the text of the Laws abstracted in the inclosure that in Alabama ,Louisiana, Missouri, and Mississippi it is not for the debtor to reclaim the privileged articles, &c., from seizure, the Sheriff is forbidden to seize them.

In Arkansas and Florida the debtor may indicate property—specified in the Law of the former State, and up to the value of 1,000 dollars in the latter—which he wishes to retain. From what I am able to ascertain, these exemptions are almost invariably claimed.

It is a moot point whether the personal exemptions of Louisiana are good as against a landlord. There are decisions both ways, and no case has as yet been taken up to the Supreme Court.

I have, &c.

(Signed) A. De J. De Fonblanque.

Law of Louisiana.

Homesteads and Exemptions.—Constitution.

219. There shall be exempt from seizure and sale by any process whatever, except as herein provided, the "homesteads" *bonâ fide* owned by the debtor and occupied by him, consisting of lands, buildings, and appurtenances, whether rural or urban; of every head of a family, or person having a mother or father, a person or persons dependent on him or her for support; also one work-horse, one waggon or cart, one yoke of oxen, two cows and calves, twenty-five head of hogs, or 1,000 lbs. of bacon or its equivalent in pork, whether these exempted objects be attached to a homestead or not; and on a farm the necessary quantity of corn and fodder for the current year, and the necessary farming implements to the value of 2,000 dollars.

Provided, that in case the homestead exceeds 2,000 dollars in value, the beneficiary shall be entitled to that amount in case a sale of the homestead under any legal process realizes more than that sum.

No husband shall have the benefit of a homestead whose wife owns, and is in the actual enjoyment of property or means to the amount of 2,000 dollars.

Such exemptions, to be valid, shall be set apart and registered as shall be provided by law. The benefit of this provision may be claimed by the surviving spouse, or minor child or children, of a deceased beneficiary, if in indigent circumstances.

220. Laws shall be passed as early as practicable for the setting apart, valuation, and registration of property claimed as a homestead. Rights to homesteads, or exemptions under laws or contracts, or for debts existing at the time of the adoption of this Constitution, shall not be impaired, repealed, or affected by any provision of this Constitution, or any Laws passed in pursuance thereof. No Court or Ministerial officer of this State shall ever have jurisdiction or authority to enforce any Judgment, execution, or decree against the property set apart for a homestead, including such improvements as may be made thereon from time to time; provided the property herein declared to be exempt shall not exceed in value 2,000 dollars. This exemption shall not apply to the following cases, to wit:—

(1) For the purchase-price of said property, or any part thereof.
(2) For labour and material furnished for building, repairing, or improving homesteads.
(3) For liabilities incurred by any public officer or fiduciary, or any attorney-at-law, for money collected or received on deposit.
(4) For lawful claims for taxes or assessments.

221. The owner of a homestead shall at any time have the right to supplement his exemption by adding to an amount already set apart, which is less than the whole amount of exemption herein allowed, sufficient to make his homestead and exemption equal to the whole amount allowed by this Constitution.

222. The homestead shall not be susceptible of mortgage, except for the purchase price, labour, and material furnished for the building, repairing, or improving homestead; nor shall any renunciation or waiver of homestead rights or exemptions be valid. The right to sell any property which shall be recorded as a homestead shall be preserved, but no sale shall destroy or impair any rights of creditors therein.

223. Equitable laws shall be passed for the protection of creditors against the fraudulent claims of debtors, for the punishment of fraud, and for reaching property and funds of the debtor concealed from the creditor.

Homstead and Exemptions.—Session of 1880.

Be it enacted by the General Assembly of the State of Louisiana, the person or persons claiming the benefit of the homestead and exemptions provided by law, pursuant to Articles 219 and 220 of the Constitution of 1879, must execute a written declaration of homestead. This declaration must contain—

1. A statement of the facts that show the person claiming the homestead and exemptions is a person of the description to be entitled thereto.
2. A statement that the person claiming it is residing on the land or lot claimed as homestead, and owns it by a *bonâ fide* title, stating the nature of title.
3. A description of the lot or tract of land.
4. An enumeration of the other exemptions.
5. An estimate of the cash value of the homestead and exemptions; a statement of intention to claim such homestead and exemptions.

The declaration must be sworn to and recorded in the book of mortgages for the parish where the homestead claimed is situated.

Widows' Homesteads.—Revised Civil Code, Chapter 5.

3252. Whenever the widow or minor children of a deceased person shall be left in necessitous circumstances, and not possess in their own right property to the amount of 1,000 dollars, the widow or legal representatives of the children shall be entitled to demand and receive from the succession of the deceased husband or father a sum which, added to the amount of property owned by them, or either of them, in their own right, will make up the sum of 1,000 dollars, and which amount shall be paid in preference to all other debts, except those for the vendor's privilege and expenses incurred in selling the property. The surviving widow shall have and enjoy the usufruct of the amount so received from her deceased husband's succession, during her widowhood, which amount shall afterwards vest in and belong to the children or other descendants of the deceased husband.

Exemptions.—Act No. 79, 1876.

Section 1. The Sheriff or constable cannot seize the linen and clothes belonging to the debtor or his wife, nor his bed, bedding, or bedstead, nor those of his family, nor his arms and military accoutrements, nor the tools and instruments, and books, and sewing-machines necessary for the exercise of his or her calling, trade, or profession by which he or she makes a living, nor shall he in any case seize the rights of personal servitude, of use and habitation, of usufruct to the estate of a minor child, nor the income of dotal property, nor money due for the salary of an officer, nor labourers' wages, nor the cooking stove and utensils of the said stove, nor the plates, dishes, knives and forks, and spoons, nor the dining table and dining chairs, nor wash-tubs nor smoothing irons and ironing furnaces, nor family portraits belonging to the debtor, nor the musical instruments played on or practised on by any member of the family.

Section 2. That any person offending against the provisions of this Act, or who shall by any artifice or subterfuge induce or procure another to sign away, by contract or otherwise, any of the rights which he or she may have under this Act, shall be deemed guilty of a misdemeanour, and on conviction shall be fined in a sum not exceeding 200 dollars, or imprisonment for a term not exceeding six months, or both, at the discretion of the Court.

Section 3. That all laws and parts of laws conflicting with this Act or contrary to any of its provisions, and all laws on the same subject-matter, the amendment of Article 644 of the Code of Practise, be and are hereby repealed.

Section 4. That the repealing clause of this Act shall not be construed or interpreted so as to affect the exemption of the homestead, the widows' 1,000 dollars, nor the rural and agricultural exemptions now in force by existing Laws, it being the true meaning and intent of this Act that those exemptions should not be affected by this Act.

GREAT BRITAIN AND IRELAND.

The laws for the establishment, working, powers and supervision of special classes of Land Improvement Companies in Great Britain and Ireland are several in number, but do not seem to require insertion. The Inclosure Commissioners are the Government authorities who deal with such societies, and it is usual to give powers of distraint for arrears of annuities as though the societies were landlords while the charge for interest and the maximum period for amortization of the debt are also stated in the several laws.

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